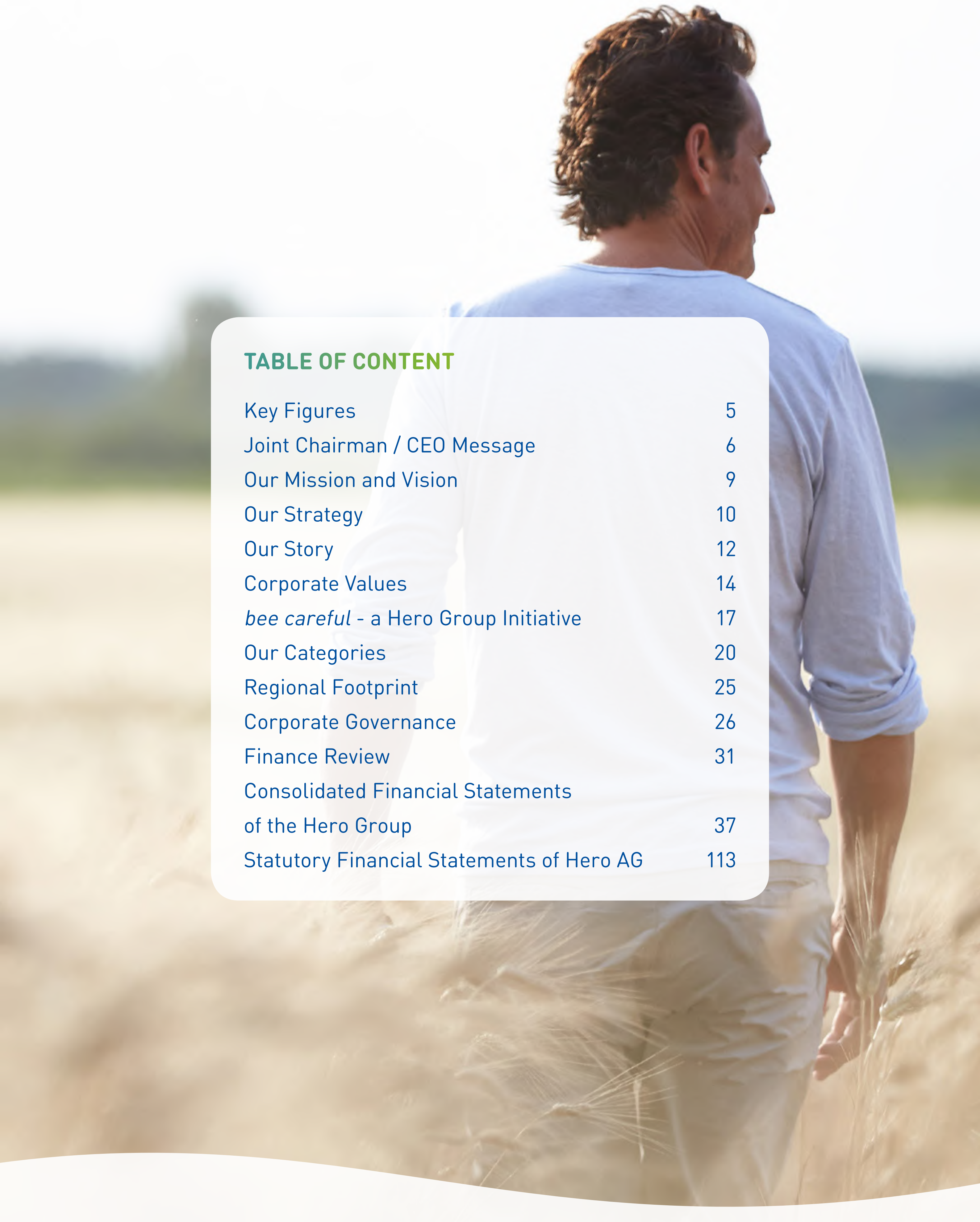
ANNUAL REPORT 2016

Hero



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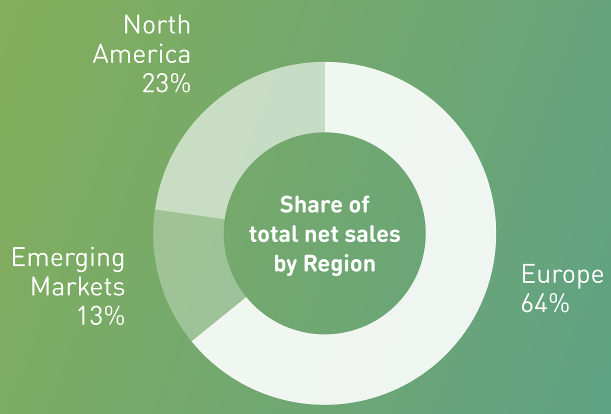
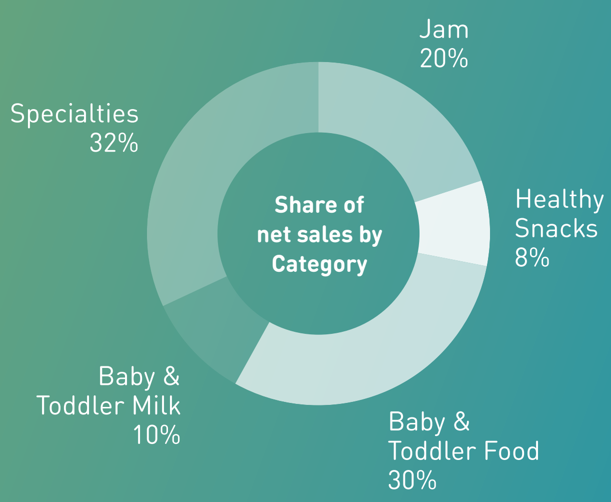
KEY FIGURES

in CHF million	2016	2015	2014
Net sales	**1 269.2**	**1 260.6**	**1 343.4**
Organic growth in %	0.1	1.7	(1.0)
Operating Profit (EBIT)	**113.8**	**108.2**	**65.0**
in % of net sales	9.0	8.6	4.8
Income for the year	**73.4**	**71.8**	**112.9**
in % of net sales	5.8	5.7	8.4
Cash flow from operating activities	**118.3**	**118.8**	**104.9**
in % of net sales	9.3	9.4	7.8
Total Equity	**682.6**	**839.2**	**911.3**
Equity ratio in %	44.9	53.2	54.4
EBITDA	**153.7**	**145.9**	**152.2**
Net Debt	**329.0**	**166.2**	**125.5**
Net debt / EBITDA	**2.1**	**1.1**	**0.8**
Headcount	**3 900**	**3 747**	**3 685**





JOINT CHAIRMAN / CEO MESSAGE

In the past year, the company made further progress in the execution of its mission, vison and strategy to drive profitable growth. In 2016, Hero managed to increase both absolute and relative profitability with EBIT now reaching 9.0% of net sales.

Top line growth of our branded sales in our core categories of Baby & Toddler Food, Jams and Healthy Snacks accelerated to a satisfying level of 3.8%. These positive developments were countered by a decrease in sales of our Baby & Toddler Milks caused by changes in the regulatory environment in China as well as adverse developments in our specialties and non-branded businesses, leading to an overall stable development of our total sales versus prior year.

Dr Hasso Kaempfe, Chairman (left) and Rob Versloot, CEO

Outlook 2017

We are proud to have a mission forged in the furnaces of tradition and built around the goodness of nature. We believe in its power and will continue to make steps in aligning the company to our mission statement in 2017. We plan to grow top and bottom line in our core categories, fueled by new product initiatives and our focus on commercial execution. Market conditions will however remain challenging in 2017. We expect continuous volatility in emerging markets, as well as a potential decrease in consumer confidence in both the USA and Europe in line with political developments.

A more detailed analysis of our performance and outlook can be found in our financial review.

Board of Directors / Executive Board

In 2016, we welcomed Leopold Oetker to the Hero Group Board of Directors. The Oetker family are the shareholders of the Hero Group, and Leopold Oetker follows in the steps of his father, Dr Arend Oetker, who sat on the board until January 2013 when he took on the role as Honorary Chairman.

The Hero Group saw the appointment of Karsten Boyens to the Executive Board as CFO. Long-standing member of the Executive Board René Bänziger retired from the company and was succeeded by Witte van Cappellen as CMO.

Our local heroes

We would like to take the opportunity to express our appreciation to all our employees for their passion and commitment to our business in the past year. At Hero, we are proud of our people and culture and consider them key assets of our company. Together with our colleagues in the Board of Directors and Executive Board we will continue to focus on long-term value creation for our shareholders, whom we would like to herewith thank for their valuable support.

Sincerely,

Dr Hasso Kaempfe
Chairman Board of Directors

Rob Versloot
Chief Executive Officer

DELIGHT CONSUMERS BY CONSERVING THE GOODNESS OF NATURE

OUR MISSION AND VISION

The world today is different from the one that existed 10 years ago, and nothing like what it was in 1886 when Hero came into existence. Since the first day, our company has however been on a journey, and while the wording may have changed, the mission has always been **to delight consumers by conserving the goodness of nature**. It's what we do and what we are good at.

Bringing nature into people's homes in convenient jars, pouches, tins and other containers is our core business. We want to ensure that the food we offer is the best in terms of quality, using the best natural ingredients whilst minimizing processing. We continuously ask ourselves the question: how can we delight consumers and create preference for our products and brands?

We believe in the following principles:

- Having superior natural products that communicate goodness, nature and homemade
- Using sustainable and responsible sourcing
- Minimizing the use of artificial additives
- Building consumer and shopper understanding
- Innovation in our processes, products and packaging

Our United Local Heroes vision reflects that our group of companies is more than the sum of its parts.

UNITED because we all work together towards a common goal. We work collaboratively to preserve the consistency of and leverage synergies from our multi-country brands to drive success; it is **LOCAL** because the people who know our customers and shoppers best are the ones in the field/working most closely to them, and they are better placed to focus on building our brands and superior local execution; finally, it's also **HEROES** as we aspire to go that extra mile to make sure our customers in our markets are happy and deliver on our profitable growth ambitions.

OUR STRATEGY

Focus on core categories

At Hero, we aim to drive organic growth of our core categories, namely Baby & Toddler Food, Jams, and Healthy Snacks, supported by our business in Baby & Toddler Milk, and Specialties. We do so by increasingly aligning the portfolios of our core categories to our mission 'to delight consumers by conserving the goodness of nature' and by focusing our central and country organizations on these businesses. Next to this, our business development agenda is targeted at increasing the weight of our core categories in our total Group sales.

Profitable growth

Our Hero profitable growth model guides the implementation of our strategy. We aim to increase the profitability of our Group by increasingly unlocking synergies between our operating companies.

Operating model

Our goal as an organization is to achieve profitable growth: a virtuous cycle where performance improvement creates financial returns that can be invested in brand building and innovation, driving economies of scale / scope that lead to ever improving performance and accelerated growth.

We strive to find the advantages of being part of a Group – scale, synergies and specialist skills – while retaining the advantages of being highly local, quick on the ground, and close to the consumer / shopper.

To make this type of organization work, one where we are neither fully centralized nor fully decentralized, we rely on leadership at all levels and a strong link to our Hero values to underpin our way of working.

The theme is clear: the center provides unified overarching direction and added value to countries. Countries drive focused execution and deliver results, given that they are the ones who ultimately bring growth and profit. They also implement central initiatives as a means to help drive growth and margin improvement for the whole company.

CONSERVING THE GOODNESS OF NATURE

OUR STORY

Our beliefs echo those of archeologists and restorers: what is of value deserves to be conserved, defended, protected and nurtured for everyone to enjoy. This is why we at Hero have made it our mission to conserve the works of the greatest artist of all times – Mother Nature.

Our work starts at the source itself: farmers, growers and planters all over the world. From Francisco Javier, a farmer in Jumilla, Spain, who grows peaches for our baby food, to Dirk, a strawberry farmer in Schmilau, Germany, and Hans, who grows potatoes for our Swiss Rösti in Endingen. In Egypt, Khalil and Mahmoud work the fields to provide us with fresh produce, while Sören in Köping, Sweden, provides hundreds of tons of oats for our infant cereals. These are real people who we know personally and trust.

With precision rivalling that of Swiss watch makers, we conserve the fruits of their land. Indeed, Hero is like a time machine, capturing the taste and nutritional value of fruit, grain and dairy products, and conserving these works of art against the ravages of time. And so, we take consumers back to that very moment when Mother Nature presents her work with absolute perfection – ripe and tasty fruit freshly picked from trees or raw produce harvested from fields.

In essence, little has changed since two Swiss gentlemen, Henckell and Roth, founded Hero in 1886. They enchanted consumers by conserving all the goodness they found in nature, and that is what

Some call us a food manufacturer – we disagree. For us, it is Mother Nature who makes food – all we do is conserve the goodness, for you.

we still do today. In the 130 years between then and now, Hero has acquired a considerable global reputation. Using both timeless care and state-of-the-art technology, we distribute nature's goodness to hundreds of millions of consumers in scores of countries, spread over five continents.

Our customers may be 82 years old, or 82 months, or 82 days. In each case, our food provides the nutrients needed for them to lead a healthy life, all conveniently packaged and conserved.
Our family-owned company includes dozens of brands. We represent a significant force in jams, healthy snacks, and baby/infant foods. With brands synonymous with quality, such as Hero, Hero Baby, Organix, Beech-Nut, Semper, Vitrac, Corny, and Schwartau, we are accustomed to prominent market positions in many local markets. They are our local heroes.

Some call us a food manufacturer – we disagree. For us, it is Mother Nature who makes food – all we do is conserve the goodness, for you. We are her treasurer and are in her debt. This is why we are striving to help nature through our *bee careful* initiative, which seeks to protect bee populations that are vital to fruit diversity.

Ever since 1886, we have been nature lovers with one aspiration; to delight consumers by conserving the goodness of nature.

CORPORATE VALUES

Change

Juliana Fantini
Marketing Coordinator
Queensberry (Brazil)

"Having **Change** as one of the Group values is important as it is one in which I strongly believe. In my opinion, being willing to change is synonymous with courage and intelligence. We are willing to promote change to keep growing and spreading the goodness of nature around the world. Our Employee Advocacy Project is all about change as well, since Hero is willing to include a new culture in order to reach more consumers and further improve the reputation of the company and its products."

Empowerment

Ceyda Hafizoglu
Project Manager I&Q
Hero Group (Turkey)

"I really enjoy being a member of this multinational family because Hero believes in **Empowerment**. This holds true in our projects and work, and it really boosts my creativity and motivation. The end result is that the work I do is done from my heart."

Veronika Kanger
NPD Manager
Hero Russia

"Hero promotes and supports employees' professional development by providing challenges and giving opportunities to show our worth in our work. This gives us the **Empowerment** we need to give our all for the benefit of all parties. It's a win-win situation."

Speed

Ricardo Eijberts

Group Account Manager
Hero Benelux (The Netherlands)

"**Speed** is one of the values why I really appreciate working for Hero. It's a privilege to work in a multinational company with such short, transparent (hierarchical) line in which everyone is personally accessible. This means that everyone knows and appreciates the urgency of taking decisions at the right time, with the required thought and taking all elements into consideration. I'm really convinced that speed is a true characteristic of the Hero Group."

Entrepreneurship

Stine Hasselø

Product Manager Infant
Semper Norway

"The entrepreneurial spirit at Hero inspires me every day. The freedom and trust shown in taking (calculated) risks, the passion shared for finding solutions that work in each market, the openness for discussions, and the freedom given to creativity that ultimately may lead to innovation or new business solutions are all crucial factors in driving the business forward. I believe that Hero embraces and supports **Entrepreneurship**, and this is why I really enjoy working for the company."

Family

Chris Braitch

Customer Marketing Controller
Organix (UK)

"I enjoy working for Hero because I've had an amazing opportunity to enjoy our **Family** value within the Summit of United Local Heroes project. Working in an international cross-functional team for the first time in my career has really opened my eyes to the diversity of talent and experience that can be tapped into, and because of the family spirit, I've made some good friends through it. Hero people have a great sense of humor and an entrepreneurial spirit, so challenges are quickly overcome."

AN INITIATIVE TO PROTECT BEE HEALTH AND FRUIT DIVERSITY

BEE CAREFUL A HERO GROUP INITIATIVE

The world of bees is as fascinating as it is threatened. Every year, higher than average losses in bee colonies are being reported around the world.

The Hero Group launched the *bee careful®* initiative in an effort to better understand and address the bee colony collapse disorder problem. Bees pollinate about 80 % of the world's plants – fruit in particular. Without bees not only would orchard yields and fruit quality be considerably lower, some fruit species would practically disappear. Bees are essential for us all, and in particular for the Hero Group as a major fruit user. The main aims behind *bee careful* are:

- To assist in targeted research
- The dissemination of knowledge in schools and other institutions
- To provide support to beekeepers and prospective beekeepers

"This is not just another sustainability program, but rather a small step we are taking to contribute to the survival of the bee, which works tirelessly to carry out the important task assigned to it. In recognition of its work, we should do our utmost to ensure its survival, and by doing so, ensure our own survival," said Rob Versloot, CEO Hero Group.

Our efforts are backed by renowned bee expert Professor Jürgen Tautz from the University of Würzburg and his Honey Bee Online Studies (HOBOS) research and teaching platform.

bee careful®

Country initiatives

The Group has pledged a substantial budget for local *bee careful* initiatives. These include:

- Creating bee-friendly communities
- Research projects aimed at saving the Egyptian bee *Apis lamarckii*
- Assessing the impact of pollination by bees on yield and nutritional value of peach and apple trees
- Establishment and maintenance of HOBOS stations
- Promotions for people to build bee homes
- Promoting bee keeping among students
- Launching of on pack consumer campaigns
- Education for and support to bee keepers
- Promoting bee-friendly agricultural projects
- Creation of country websites aimed at promoting the initiative and, therefore, the health of bees.

Bees pollinate about 80% of the world's plants – fruit in particular. Without bees not only would orchard yields and fruit quality be considerably lower, some fruit species would practically disappear.

OUR CATEGORIES

Jams

At Hero, it's all about goodness of nature, and we are experts in conserving the best of what nature provides with our jams. Transforming fresh fruits in the gentlest of ways for our jams to keep their authentic fruit taste is part of our daily striving to improve quality. In our plants, we produce millions of jam jars every year. We work closely with the local farmers whom we have known for a long time, benefiting from their expertise in growing the best quality fruit for our jams.

Today, millions of consumers all over the world start their day with our products. Hero jams are available in over 120 countries worldwide, and our brands hold leading market positions in Europe, MEA and South America.

The Jams category, a mainstay of the Hero Group, made up 20.4% of the total sales.

Healthy Snacks

The Healthy Snacks category has experienced phenomenal growth in the last years. In 2016 alone, the category grew by 15.2% compared to the previous year. It made up 8.1% of the total Hero Group sales. Our wide range of cereal products – including cereal bars, nut bars, fruit bars, sandwich bars with creamy fillings and pouches – provide consumers with great flavors and energy throughout the day. The first Hero cereal bar was produced in 1984. Since then we have become one of the market leaders in Europe.

We are constantly looking for ways to improve our bars, develop new ranges and offer our consumers innovative and delicious products. Last year saw the launch of a number of innovations, including a protein sports bar and an oat power bar, fruit bars, soft oat bars and fruit & oat smoothies in pouches.

Global brand equity building via consumer communication and shopper activation, portfolio structure optimization, innovation power and market entries in new emerging markets will be the strategic success factors for accelerating the profitable growth for the Healthy Snacks category.

Baby & Toddler Food (BTF)

We are on a mission to delight babies and toddlers with the best nutrition possible. They are our inspiration. Having a baby is challenging enough without having to worry about balanced nutrition. The Hero BTF category provides great tasting, nutritionally-balanced food for babies and toddlers from four months and up. Our portfolio covers cereals, jars, pouches, biscuits, and juices served as in-betweens and snacks. As well as regular BTF, we have a strong competence in Organic BTF.
We manufacture and sell our food under various brands across North America, Europe and MEA (Middle East & Africa). Investments in packaging, technology and ingredients ensure we maintain out leading position in key markets. Of the four main Group categories, BTF is the largest with 29.5% of our total net sales.

Baby & Toddler Milk (BTM)

'Delighting moms (and dads) & babies by conserving the goodness of nature' is at the core of Hero BTM mission and inspiration. We believe breast milk is the best to ensure our babies have the best start in life. For those times when breastfeeding is not possible, Hero has developed a range of infant milk formulas.

Hero is present in numerous European countries, the MEA region and China with different brands, including Hero Baby, Semper and Sunar. We are especially proud of our new infant formula with Lipilact containing unique blend of milk fat & MFGM that mimics mothers' breast milk. Since 2014, Lipilact has been launched in different markets. The BTM category made up 10.1% of the Hero Group's total for 2016.

Specialties

The Hero Group includes a fifth category of specialized products for niche markets. One of the most important in this sector is our gluten free range which is particularly strong in the Nordics with Semper and the UK with Juvela. These products offer gluten-intolerant and gluten-sensitive consumers and others diagnosed with coeliac disease a tasty alternative.

Other products are sold seasonally and include products created around festivities or themes, such as Easter and Halloween, plus a cake decoration business. This Specialties category makes up 31.9% of the Group total.


Hero

REGIONAL FOOTPRINT

Europe remains the largest sales area for the Hero Group, accounting for two-thirds of the total for 2016. At 64.3%, sales in Europe increased by 1.0% when compared to the previous year. North America, at 23.0%, is the second largest sales area. This region registered a marginal drop of 0.6% in the year in review. Emerging Markets, which include Egypt, China, Turkey, Russia and Brazil, made up the remainder of sales, coming in at 12.7% of the total.

In terms of production, the Hero Group has its own facilities in Egypt (Cairo), Germany (Bad Schwartau), Spain (Alcantarilla), Sweden (Gotene and Korsnäs), Switzerland (Lenzburg), Turkey (Ankara), and the USA (Amsterdam, NY, and Ocala, Florida). Furthermore, the Group relies on external production and co-packers to produce its products. These include facilities in Belgium, Denmark, France, the Netherlands, Spain, Switzerland, the UK and the US.

CORPORATE GOVERNANCE

Board of directors

(from left to right)

Dr Hasso Kaempfe, Chairman

Leopold Oetker

Michael Pieper

Dr Hagen Duenbostel

Herbert J. Scheidt, Vice-chairman

Honorary Chairman

Dr Arend Oetker

Executive Board

(from left to right)

Rob Versloot, CEO

Markus Lenke, COO

Witte van Cappellen, CMO

Dr Karsten Boyens, CFO

Introduction

Hero is committed to modern corporate governance principles. Professional processes and responsible management are upheld and followed by the Group's management teams.

Hero's corporate regulations are oriented towards the guidelines outlined in the Swiss Code of Best Practices in addition to the provisions set out by the Swiss law. The Hero Group Board of Directors and Executive Board are separate decision-making bodies with distinct functions and responsibilities. No official on the Board of Directors is a member of the management team.

Board of Directors

The Hero Board of Directors consists of five members who are elected by the Annual General Meeting for a period of two years.
The current Board of Directors consist of Dr Hasso Kaempfe (Chairman), Herbert J. Scheidt, Dr Hagen Duenbostel, Michael Pieper, and Leopold Oetker. Dr Arend Oetker holds the post of Honorary Chairman.

The Board of Directors convenes its own meetings at least four times a year. At least one board meeting is held in a country / office outside Switzerland. The Board of Directors has delegated individual tasks to two sub-committees, which analyze specific issues in more depth on behalf of the board.

Finance & Audit Committee

Herbert J. Scheidt (Chairman)
Dr Hagen Duenbostel
Dr Hasso Kaempfe

Human Resources Committee

Dr Hasso Kaempfe (Chairman)
Herbert J. Scheidt
Dr Hagen Duenbostel

The Board of Directors elects the members of these two sub-committees from the directors sitting on the board. At each Board of Directors meeting, the chairmen of the sub-committees inform the members about the issues dealt with by the sub-committees and any corresponding board resolutions. The Board of Directors has delegated all operative management functions to the Executive Board with the exception of those tasks assigned to other bodies as prescribed by law, the articles of incorporation, or other corporate regulations.

Executive Board

The Executive Board is ultimately responsible for the operational management of the business. The Executive Board's responsibilities encompass the execution and achievement of the Group's strategies, the direction of Group companies, as well as extracting maximum synergies from the Group's structures.

The leaders of the business divisions and the heads of the subsidiary companies are responsible for the development and achievement of their commercial and financial targets, and for the leadership of their areas. The Executive Board answers to the Board of Directors for the results of the Group.

Board and management compensation

Annually, the Board of Directors determines the principles of the remuneration system and annual compensation for the Board of Directors and Executive Board at the recommendation of the Human Resources Committee. The Human Resources Committee deliberates and reviews the annual compensation in light of market practices of companies of similar size and industry.

The remuneration paid to the Board of Directors comprises a fixed salary paid in cash which is not related to performance. Remuneration of the members of the Executive Board comprises a fixed and a variable component. The variable component consists of a short-term incentive plan paid in cash.

For 2016 related compensation, this performance-based incentive relates to achievements in the 2016 financial year. Performance criteria were Group EBIT and individual targets. The non-achievement of targets may lead to this remuneration being significantly reduced. In case of over-achievement of targets, the payout can increase to a maximum of 150% of the target amount.

From January 1, 2017 a change has been made to the variable component of the Executive Board's remuneration. The incentive is now based on achievement of a three-year average of Net Income plus individual performance targets. This change was made to align the long-term interests of the shareholders with those of the Executive Board.

After a two-year waiting period, Executive Board members may participate in a long-term incentive plan where they are offered to invest up to 50% of their short-term incentive plan payment in shares. Refer to the note '5. Accounting policies' of the consolidated financial statements for an explanation of the provisions of the long term incentive plan.

Auditors

In general, the auditors participate in four Finance & Audit Committee Meetings per year to report, both verbally and in writing, on audit planning, execution, and recommendations. The auditors for the Hero Group Annual Report 2016 are:

Ernst & Young Ltd., Zürich


Hero
Reception >

FINANCE REVIEW

SUMMARY

In 2016, Hero continued on its profitable growth path driven by a strong performance in European core markets and branded business in our lead categories. With these positive developments, Hero compensated for challenges related to regulatory changes in the Baby & Toddler Milk (BTM) business in China as well as in certain business segments in North America.

Net sales reached CHF 1,269.2 million, an increase of 0.7% over 2015. Organic growth adjusted for currency and acquisition effects is up by 0.1% compared to prior year. The underlying branded business in our lead categories Baby & Toddler Food (BTF), Jams and Healthy Snacks achieved continued strong development with organic net sales growth of 3.8% (2015: 3.3%).

Operating profit increased to CHF 113.8 million (2015: CHF 108.2 million). This represents a further improvement of the operating profit margin from 8.6% in 2015 to 9.0% in the year under review. The Cash Flow from operating activities was stable at CHF 118.3 million (2015: CHF 118.8 million).

The Hero Group successfully completed the refinancing of the hybrid bond that reached the first call date on October 28, 2016. With the issuance of a CHF 200 million hybrid bond with a coupon of 2.125% and a CHF 135 million 10-year 1.0% straight bond, Hero was able to ensure a sound financial ground to support future profitable growth as well as to substantially lower the cost of capital for the Group.

Net Sales – Regions

Europe remains Hero's most important sales area with a share of 64.3 % (2015: 64.0 %) of total net sales in 2016. Organic growth reached 0.4% in 2016. Similar to last year, the European sales development was negatively impacted by a decrease in non-strategic, non-branded business. Adjusted for that effect, organic growth in Europe was up by 1.9% in 2016. Certain European core businesses such as Germany, the Nordics, the UK and the Czech Republic contributed over-proportionately to this growth.

Hero's business in **North America** represented 23.0% (2015: 23.5%) of total net sales in 2016. The business in the USA declined by 2.9% organically. The main causes for this development were lower sales in the non-core specialties and in the co-packing business.

Our main **Emerging Markets** are Egypt, China, Turkey, Russia, and Brazil. In 2016, Hero reached a positive organic net sales growth of 4.0% in these markets. Overall, this growth is a solid performance in light of the volatile economic circumstances in many regions as well as regulatory uncertainties regarding BTM in China. The new entity in Brazil, of which Hero acquired 50% plus one share in December 2015, contributed positively to the development of Hero's Emerging Markets.

in CHF million	Net sales 2016	Net sales 2015	△ 2016 vs 2015 in %	Acquisition effect	Currency effect	Organic Growth
Europe	815.3	807.1	1.0%	-	0.6%	0.4%
North America	292.3	294.2	-0.6%	-	2.3%	-2.9%
Emerging Markets	161.6	159.3	1.4%	7.9%	-10.5%	4.0%
HERO GROUP	**1 269.2**	**1 260.6**	**0.7%**	**1.0%**	**-0.4%**	**0.1%**

Net Sales – Categories

The **Jams** category represented 20.4% of sales (2015: 19.7%) in 2016. The increase in share is mainly driven by our acquisition in Brazil. While we face saturated jam markets in many European countries, Hero achieved a positive organic net sales growth of 0.2% in 2016 after a decline of 1.4% in 2015.

Healthy Snacks is Hero's fastest growing category with an organic net sales growth of 15.2% in 2016 (2015: 9.0%). The growth was carried by a strong performance of our Corny brand in Germany, which is our biggest healthy snacks market. However, many other markets such as Russia, Spain and the Netherlands also show very positive developments. In 2016, Healthy Snacks contributed 8.1% to Hero's net sales (2015: 7.2%).

Baby & Toddler Food (BTF) represented 29.5% of Hero Group's sales in 2016 (2015: 29.8%). Net sales grew slightly by 0.2% organically (2015: -1.3%). As in prior year, net sales development in BTF were negatively impacted by a reduction in non-branded business. The branded-business in BTF showed a healthy organic growth of 3.5% (2015: 3.3%) driven by a dynamic growth of Hero's product range in pouches.

Net sales in the **Baby & Toddler Milk (BTM)** category declined 6.7% organically in 2016 after the considerable growth of 16.2% the year before. While Hero achieved growth in regions and countries such as Scandinavia, the Czech Republic, and Egypt, we faced challenges related to regulatory uncertainties in China. BTM represented 10.1% of our sales in 2016 (2015: 11.1%).

Hero's net sales in the **Specialties** category were down 1.1% organically in 2016. Changes in the gluten-free prescription market in the UK and the US decorating market negatively affected net sales of the Specialties category.

in CHF million	Net sales 2016	Net sales 2015	△ 2016 vs 2015 in %	Acquisition effect	Currency effect	Organic Growth
Jam	259.0	249.6	3.8%	5.0%	-1.5%	0.2%
Healthy Snacks	102.8	88.2	16.5%	-	1.3%	15.2%
Baby and toddler food	374.2	376.2	-0.5%	-	-0.7%	0.2%
Baby and toddler milk	128.7	139.3	-7.6%	-	-0.9%	-6.7%
Specialties	404.4	407.2	-0.7%	-	0.4%	-1.1%
HERO GROUP	**1 269.2**	**1 260.6**	**0.7%**	**1.0%**	**-0.4%**	**0.1%**

Operating result

In 2016, our **Gross Profit** margin was 32.6% compared with 33.1% the previous year. In many European markets, we achieved margin improvements through our continuous supply chain, procurement, and commercial efforts. However, in 2016 this was overcompensated in particular by margin pressure in North America, in our Chinese BTM business as well as due to negative currency effects in certain Emerging Markets.

Operating expenses without other income / expense increased by 1.4% to CHF 306.9 million, representing 24.2% of net sales (2015: 24.0%). The increase of operating expenses is related to further investments in Hero's marketing and sales organization to support net sales growth.

Investments in advertising and promotion (A&P) were at 8.2% of net sales, relatively unchanged from last year (8.4%). As part of our Commercial Effectiveness Program (CEP), we aim to allocate A&P investments more effectively. Investments in research and development as well as administrative costs were stable compared to prior year.

In 2016, **other income** mainly includes the proceeds of an insurance claim relating to the BTF business in North America.

Operating profit (EBIT) increased to CHF 113.8 million, representing an increase of the EBIT margin from 8.6% in 2015 to 9.0% in 2016. In light of the small decline in gross profit, we were able to achieve this result with strict cost management and the increase in other income.

Financial result and taxes

The **net finance expense** increased from CHF 13.6 million in 2015 to CHF 21.4 million in the year under review. The net interest expense of CHF 4.3 million (2015: CHF 4.6 million) benefited from the low interest environment. The net foreign exchange expense including fair value results amounted to CHF 13.4 million, an increase of CHF 6.9 million compared to 2015. This increase is mainly due to the devaluation of the Egyptian Pound and higher hedging costs related to Group internal financing.

In 2016, **income tax expense** decreased by CHF 3.8 million. In 2015, the higher tax expense related mainly to the reassessment of the valuation of tax loss carry forwards in North America.

Income for the year

Income for the year amounted to CHF 73.4 million. This represents an increase of CHF 1.6 million, or 2.2%, over 2015. As a result, the income margin increased slightly from 5.7% in 2015 to 5.8% in 2016.

Cash flow

Cash flow from operating activities before changes in net working capital further improved from CHF 143.4 million in 2015 to CHF 149.7 million in 2016. Despite the fact that net working capital increased slightly by CHF 6.8 million to CHF 111.3 million, it remains at a good level (8.8% of net sales). Cash flow from operating activities in 2016 was CHF 118.3 million, on a similar level as the prior year (CHF 118.8 million). Investing activities in 2016 concentrated mainly on production capacity improvements (CHF 41 million) and included capacity expansions for the production of cold extraction BTF, pouches and Healthy Snacks. In Egypt, Hero completed the building of a new jam factory.

Equity and net debt

The Hero Group decided to call the hybrid bond of 2009 at its first call date on October 28, 2016, in order to take the opportunity to refinance at lower cost. A new CHF 200 million hybrid bond and a CHF 135 million 10-year straight bond were issued end of October 2016. In light of the significantly lower coupons (2.125% and 1.0% respectively) the Hero Group was able to reduce annual coupon payments by over CHF 16 million. This refinancing had an impact on Hero's equity and debt ratios. As CHF 135 million of the hybrid bond has been refinanced by a straight bond, Hero sees a shift of that amount from equity to debt. This is the main reason for the increase of **net debt** from CHF 166.2 million to CHF 329.0 million. Hero's equity ratio of 44.9% (2015: 53.2%) and the net debt / EBITDA ratio of 2.1 (2015: 1.1) are on very solid foundations, allowing the current financing structure to serve as a good basis to support the Group's long-term strategy.

Risks

Hero follows an Enterprise Risk Management approach in which the Group systematically captures strategic, operational, financial and compliance risks from all entities.

In Emerging Markets, currency fluctuations and economic instability are major risks. The Hero Group was confronted with significant devaluations of the Egyptian Pound and Turkish Lira in the last months of 2016 and does not expect stabilization short-term. Regulatory changes could constitute a risk, for example in the BTM business in China or the gluten-free prescription business in the UK. Hero's US business faces commercial risks in light of a challenging market and competitive environment. The main risks for the Group also include product safety, supply chain, and the development of raw material prices.

The results of the risk assessment are reported to the Board of Directors and appropriate measures are taken to mitigate or transfer these risks. Further, Hero's external auditors regularly report their findings to the Finance and Audit committee.

Outlook

The overall global economic outlook for the markets in which Hero operates remains somewhat bleak. The European economies have been stable in the last year, but this could be fragile in light of Brexit, the UK's departure from the European Union, and upcoming elections. The outlook for Emerging Markets is still rather weak and we expect a continued volatile economic development in this region. For 2017, Hero is cautiously optimistic that it will continue its path of profitable growth. In line with our strategy, we expect to be able to deliver continued positive organic growth in our core categories.

CONTINUED PROFITABLE GROWTH PATH

CONSOLIDATED FINANCIAL STATEMENTS OF THE HERO GROUP

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CONSOLIDATED INCOME STATEMENT

for the year ended December 31
Hero Group
in CHF 1000.–

	Note	2016	2015
Net Sales		**1 269 169**	**1 260 568**
Cost of sales		(785 335)	(776 390)
Distribution expense		(70 035)	(67 029)
Gross profit*		**413 799**	**417 149**
Advertising and promotion		(103 536)	(106 067)
Marketing and sales		(101 291)	(94 018)
Research and development		(11 921)	(11 586)
Administrative expense		(90 168)	(91 111)
Other income	1	8 069	2 150
Other expense	1	(1 113)	(8 296)
Operating profit		**113 839**	**108 221**
Finance income	2	4 017	4 784
Finance expense	2	(25 454)	(18 355)
Income before tax		**92 402**	**94 650**
Income tax expense	5	(19 016)	(22 830)
INCOME FOR THE YEAR		**73 386**	**71 820**
Attributable to:			
Equity holders of the parent		72 939	71 569
Non-controlling interests		447	251
INCOME FOR THE YEAR		**73 386**	**71 820**

* Prior year comparatives have been reclassified to conform the current year's presentation.

The notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended December 31
Hero Group
in CHF 1000.–

	2016	2015
INCOME FOR THE YEAR	**73 386**	**71 820**
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translating foreign operations	(47 610)	(49 418)
Income tax effects	(133)	(97)
	(47 743)	(49 515)
Net loss on cash flow hedge	(326)	-
Income tax effects	79	-
	(247)	-
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	**(47 990)**	**(49 515)**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:		
Revaluation of land and buildings	-	(2 454)
Income tax effects	-	1 509
	-	(945)
Remeasurement losses on defined benefit plans	(10 859)	(3 980)
Income tax effects	2 820	3 364
	(8 039)	(616)
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	**(8 039)**	**(1 561)**
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**(56 029)**	**(51 076)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**17 357**	**20 744**
Total comprehensive income attributable to:		
Equity holders of the parent	15 849	20 835
Non-controlling interests	1 508	(91)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**17 357**	**20 744**

The notes form an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

for the year ended December 31
Hero Group
in CHF 1000.–

Assets	Note	2016	2015*
Non-current assets			
Property, plant and equipment	7	381 727	376 224
Intangible assets	8	556 880	572 422
Investments in associated companies		145	146
Non-current receivables	10	7 231	7 885
Deferred tax assets	11	98 299	99 736
TOTAL NON-CURRENT ASSETS		**1 044 282**	**1 056 413**
Current assets			
Inventories	12	173 930	175 571
Financial assets at fair value	22	931	1 119
Income tax receivables		9 787	5 218
Trade receivables, prepayments and other receivables	13	190 937	182 893
Cash and cash equivalents	14	99 039	163 711
TOTAL CURRENT ASSETS		**474 624**	**528 512**
TOTAL ASSETS		**1 518 906**	**1 584 925**

* Restatement acquisition, refer to note 21

The notes form an integral part of these consolidated financial statements.

in CHF 1000.–

Equity and liabilities	**Note**	**2016**	**2015***
Shareholders' equity			
Share capital	15	62 047	61 872
Share premium	15	62 993	61 192
Hybrid capital	15	198 779	334 542
Treasury shares	15	(3 524)	(2 257)
Other reserves	15	(225 444)	(168 354)
Retained earnings		577 385	547 129
Equity attributable to the equity holders of the parent		**672 236**	**834 124**
Non-controlling interests		**10 323**	**8 815**
TOTAL EQUITY		**682 559**	**842 939**
Non-current liabilities			
Borrowings	16, 22	28 096	58 610
Debentures	16, 22	264 626	129 522
Deferred tax liabilities	11	36 818	39 903
Net employee defined benefit liabilities	17	83 456	74 478
Provisions	18	15 833	14 499
Other liabilities	19	7 842	14 027
Total non-current liabilities		**436 671**	**331 039**
Current liabilities			
Trade and other payables	20	249 668	252 055
Income tax payables		4 520	4 382
Derivative financial liabilities	22	6 706	8 127
Borrowings	16, 22	135 352	141 764
Provisions	18	3 430	4 619
Total current liabilities		**399 676**	**410 947**
TOTAL LIABILITIES		**836 347**	**741 986**
TOTAL EQUITY AND LIABILITIES		**1 518 906**	**1 584 925**

* Restatement acquisition, refer to note 21

The notes form an integral part of these consolidated financial statements.

CHANGES IN EQUITY

for the year ended December 31
Hero Group
in CHF 1000.-

	Attributable to equity holders of the company						Non-controlling interests	Total equity
	Share capital (note 15)	Share premium (note 15)	Hybrid capital (note 15)	Treasury shares (note 15)	Other reserves (note 15)	Retained earnings		
BALANCE AT JANUARY 1, 2015	**61 516**	**60 000**	**403 088**	**–**	**(117 620)**	**504 355**	**–**	**911 339**
Income for the year	–	–	–	–	–	71 569	251	71 820
Other comprehensive income	–	–	–	–	(50 734)	–	(342)	(51 076)
Total comprehensive income	**–**	**–**	**–**	**–**	**(50 734)**	**71 569**	**(91)**	**20 744**
Capital increase and exercise of options **	356	1 901	–	(2 257)	–	–	–	–
Repayment of hybrid capital third parties	–	–	(68 291)	–	–	(9 385)	–	(77 676)
Distribution on hybrid capital third parties	–	–	–	–	–	(22 750)	–	(22 750)
Revaluation reserve	–	–	–	–	–	2 243	–	2 243
Acquisition of subsidiary*	–	–	–	–	–	–	8 906	8 906
Stamp duty ***	–	(709)	–	–	–	709	–	–
Tax effects	–	–	(255)	–	–	388	–	133
BALANCE AT DECEMBER 31, 2015*/ JANUARY 1, 2016	**61 872**	**61 192**	**334 542**	**(2 257)**	**(168 354)**	**547 129**	**8 815**	**842 939**
Income for the year	–	–	–	–	–	72 939	447	73 386
Other comprehensive income	–	–	–	–	(57 090)	–	1 061	(56 029)
Total comprehensive income	**–**	**–**	**–**	**–**	**(57 090)**	**72 939**	**1 508**	**17 357**
Capital increase and exercise of options **	175	1 092	–	(1 267)	–	–	–	–
Repayment of hybrid capital third parties	–	–	(334 542)	–	–	(6 522)	–	(341 064)
Issuance hybrid capital	–	–	198 779	–	–	–	–	198 779
Distribution on hybrid capital third parties	–	–	–	–	–	(21 840)	–	(21 840)
Dividend payments to shareholders	–	–	–	–	–	(13 612)	–	(13 612)
Stamp duty ***	–	709	–	–	–	(709)	–	–
BALANCE AT DECEMBER 31,2016	**62 047**	**62 993**	**198 779**	**(3 524)**	**(225 444)**	**577 385**	**10 323**	**682 559**

* Restatement acquisition, refer to note 21
** In connection with long-term incentive plan. These shares are accounted as treasury shares rather than a sale of shares to plan participants.
*** Transaction cost in connection with capital increase

The notes form an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended December 31
Hero Group
in CHF 1000.–

	Note	2016	2015
Cash flows from operating activities			
Income for the year		73 386	71 820
Adjustments for:			
Tax expense	5	19 016	22 830
Depreciation	7	31 932	29 178
Amortization / Impairment	8	7 872	8 525
Net (gain)/ loss on sale of property, plant and equipment and businesses		(47)	58
Fair value result, net		6 357	1 678
Interest income	2	(1 298)	(1 395)
Interest expense	2	5 548	5 951
Net loss in foreign exchange		6 943	4 752
Cash flows before changes in net working capital		**149 709**	**143 397**
Inventories		(6 854)	(13 462)
Trade and other receivables		210	13 240
Trade and other payables		5 642	(25 881)
Accruals and provisions		(5 878)	27 225
Changes in net working capital		**(6 880)**	**1 122**
Interest paid		(5 796)	(6 137)
Tax paid		(18 763)	(19 589)
NET CASH FROM OPERATING ACTIVITIES		**118 270**	**118 793**
Cash flows from investing activities			
Acquisition of subsidiaries and businesses, net of cash acquired	21	(427)	(12 848)
Purchase of property, plant and equipment	7	(41 004)	(33 221)
Purchase of intangible assets	8	(4 263)	(3 241)
Payment interest rate swap and other		(8 281)	(8 107)
Loans made		(510)	(883)
Disposal of intangible assets		69	(21)
Proceeds from sale of property, plant and equipment		2 154	3 390
Interest received		1 295	1 395
NET CASH USED IN INVESTING ACTIVITIES		**(50 967)**	**(53 536)**

The notes form an integral part of these consolidated financial statements.

	Note	2016	2015
Cash flows from financing activities			
Repayment of hybrid capital third parties		(341 064)	(77 543)
Proceeds from hybrid capital		198 779	–
Distribution on hybrid capital third parties		(21 840)	(22 750)
Payment of loans to related parties		(14 171)	–
Proceeds from debentures		135 104	–
(Repayment of) / Proceeds from borrowings, net*		(43 055)	14 797
Capital increase		763	1 395
Payment of dividends to shareholders		(13 612)	–
NET CASH USED IN FINANCING ACTIVITIES		**(99 096)**	**(84 101)**
DECREASE IN CASH AND CASH EQUIVALENTS		**(31 793)**	**(18 844)**
Movement in cash and cash equivalents			
At start of year		163 711	190 752
Decrease in cash and cash equivalents		(31 793)	(18 844)
Effects of exchange rate changes on cash and cash equivalents		(32 879)	(8 197)
AT END OF YEAR	**14**	**99 039**	**163 711**

* Prior year comparatives have been reclassified to conform the current year's presentation.

Non-cash transactions

In 2016 no significant non-cash transactions took place.

The following significant non-cash transactions took place in 2015: The capital increase (TCHF 2'257) in connection with the long-term incentive plan was partly in cash (TCHF 1'395) and partly non-cash for which the Group has recognized a long-term loan receivable of TCHF 862.

The notes form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General

Hero AG (Hero) is a limited liability company headquartered in Lenzburg, Switzerland. Schwartau International GmbH, Bad Schwartau, Germany, a subsidiary of AOH Nahrungsmittel GmbH & Co. KG, Germany, holds 99.1% of the share capital of Hero and 0.9% are held by executive board members in relation with the long term incentive plan. The Group's primary activities are the production and selling of consumer food products in the product areas of jams, healthy snacks, baby and toddler food, baby and toddler milk and specialities which are sold in Europe, North America and Emerging Markets. At the end of 2016 the Group had 3'900 employees (2015: 3'747). All figures in the financial statements are presented in thousands of Swiss francs (TCHF) except where otherwise indicated.

These financial statements were approved by the Board of Directors on March 15, 2017, and are subject to approval by the annual general meeting of shareholders to be held on March 29, 2017.

2. Basis for Preparation

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These principles have been consistently applied to all the years presented, unless otherwise stated. The consolidated financial statements for the year ending December 31, 2016, have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The consolidated financial statements have been prepared under the historic cost convention, unless otherwise stated (i.e. revaluation of land, financial assets and liabilities held-for-trading). The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's Accounting Principles. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Accounting Principles no. 8 Critical Accounting Estimates, Assumptions and Judgements.

Changes in accounting policies and disclosures

The Group started to apply hedge accounting in 2016 and disclosures to the new transactions and the Group's policies can be found in note 22.

Status of adoption of significant new or amended IFRS standards or interpretations

The following new IFRS standards will, based on a Hero analysis, be of relevance to the Group. There are no plans to adopt any standard or amendment prior to the mandatory effective date.

— IFRS 9 Financial Instruments (effective January 1, 2018) will substantially change the classification and measurement of financial instruments; will require impairments to be based on a forward-looking model; will change the approach to hedging financial exposures and related documentation and also the recognition of certain fair value changes. However, the Group does not expect IFRS 9 to have a significant impact on its consolidated financial statements.

— IFRS 15 Revenue from contracts with customers (effective January 1, 2018) amends revenue recognition requirements and establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The standard replaces IAS 18 Revenue and IAS 11 Construction contracts and related interpretations. However, the Group does not expect IFRS 15 to have a significant impact on its consolidated financial statements.

— IFRS 16 Leases (effective January 1, 2019) substantially changes the financial statements as the majority of leases will become on-balance sheet liabilities with corresponding right of use assets on the balance sheet. The standard replaces IAS 17 Leases. The current operating lease commitments of CHF 12.8 million as of December 31, 2016 and disclosed in note 25 provide, subject to the provision of the standard, an indicator of the impact of the implementation of IFRS 16 on the Group's consolidated balance sheet.

There are no other IFRS standards or interpretations which are not yet effective which would be expected to have a material impact on the Group.

3. Consolidation

Consolidation Method

The consolidated financial statements include Hero AG, Switzerland and those companies over which Hero AG has control, which is generally the case with a shareholding of more than one half of the voting rights.

Companies controlled by the Group are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Business Combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

If the business combination is achieved in stages, the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognized in profit or loss. If the contingent consideration is classified as equity, it is not subsequently remeasured.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognized as a result of such transactions. The adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary.

Investments, where Hero has significant influence (generally accompanying a shareholding of between 20% and 50% of the voting rights) but neither control nor joint control, are accounted for using the equity method and are initially recognized at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition. The Group's share of its associates' post-acquisition profits or losses is recognized in the income statement, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it incurred obligations or made payments on behalf of the associate. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Investments meeting none of these criteria are treated as financial instruments (refer to section "Financial Instruments" for further details).

A list of investments, the investment percentage and the applicable consolidation method can be found in note 27.

Eliminations in the Course of Consolidation

All intra-group balances / transactions / unrealized gains / losses and dividends are eliminated in full. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the principles adopted by the Group.

Related Parties

Include AOH Nahrungsmittel Group companies (Germany), members of the Board of Directors and Executive Board and non-controlling interests shareholders.

Changes in the Scope of Consolidation

The scope of consolidation has not changed in the reporting period.

Effective December 1, 2015, Hero acquired 50% plus one share of Kiviks Marknad Industrias Alimenticias S.A., Brasil. Hero has control over the company and it is fully consolidated with a non-controlling interest of 50%. The purchase accounting was finalized in 2016. Details can be found in note 21.

4. Foreign Currency Translation

The presentation currency for the Group is the Swiss Franc, which is also the functional currency of Hero AG, Switzerland. Financial statements denominated in foreign currencies have been translated into Swiss Francs as follows:

- Assets and liabilities, including goodwill, are translated at the closing rate at the date of the balance sheet
- Revenues and costs are translated using average exchange rates for the accounting period
- Exchange differences out of the translation of assets and liabilities and the related income statements are booked in other comprehensive income

Foreign Exchange Rate Table

The following table shows the most important foreign exchange rates used:

	2016	2015
AVERAGE EXCHANGE RATES		
EUR/CHF	1.0900	1.0690
USD/CHF	0.9850	0.9625
GBP/CHF	1.3350	1.4714
SEK/CHF	0.1152	0.1142
CLOSING EXCHANGE RATES		
EUR/CHF	1.0732	1.0820
USD/CHF	1.0201	0.9902
GBP/CHF	1.2533	1.4686
SEK/CHF	0.1122	0.1177

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Translation differences arising from Group company loans which have the characteristics of a long-term investment are recorded in other comprehensive income.

In the event of a sale of a foreign company all translation differences accumulated since the purchase of the said company are released and included in the calculation of disposal gain or loss and fully disclosed as such.

Open monetary balances denominated in foreign currencies and recorded in the accounts of Group companies at the balance sheet date are revalued using the prevailing exchange rate as at the balance sheet date. The differences resulting from these revaluations are recorded in the income statement for the period.

5. Accounting Policies

Revenue Recognition

Net sales to third parties are recorded net of trade discounts and sales-related taxes, and represent the fair value of consideration received or receivable from the sale of products and provision of services in the ordinary course of the Group's activities.

Revenue is recognized as follows:

Sales of goods

Sales of goods are recognized when significant risks and rewards of ownership of the goods are transferred to the buyer (i.e. a Group entity has delivered products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured).

Interest income

Interest income is recognized on a pro rata temporis basis using the effective interest method.

Royalty income

Royalty income is recognized on an accrual basis in accordance with the substance of the relevant agreements.

Dividend income

Dividend income is recognized when the right to receive payment is established.

Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for making strategic decisions, allocating resources and assessing performance of the operating segments, has been identified as the Group Executive Board.

Research and Development Costs

Research costs are recorded in the income statement in the period in which they are incurred. Development costs are recognized as intangible assets to the extent that they meet the recognition criteria of IAS 38. Following initial recognition of development expenditure as an asset, the asset is carried at cost less accumulated amortization and accumulated impairment losses. Development costs are amortized on a straight-line-basis over the period of their expected benefit or tested for impairment annually. Other development costs are recorded in the income statement in the period in which they are incurred.

Deferred Taxes

Deferred income tax is calculated using the balance sheet liability method. Where the tax base of an asset or liability differs from its carrying amount, deferred tax liabilities or assets are recorded. Most of these temporary differences arise from differences in Group and local tax depreciation methods.

Unused tax credits and unused tax losses which may be carried forward to future accounting periods are capitalized as deferred tax assets in so far as it is probable that future taxable income will be generated in the same tax entity and same taxation authority and the said losses may be applied against such profits.

The carrying amount of deferred income taxes is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax assets to be recovered.

Locally enacted or substantively enacted tax rates are used in order to value the tax effect of temporary differences. When these tax rates change, deferred taxes are adjusted accordingly. Adjustments to deferred income taxes are directly booked to the income statement as part of the tax expense.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in the income statement. Deferred income tax relating to items recognized in other comprehensive income is recognized in other comprehensive income.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Current Income Tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the income statement. Current income tax relating to items recognized in other comprehensive income is recognized in other comprehensive income.

Government Grants and Other Subsidies

Government grants are recognized only when the Group complies with the applicable conditions and if there is reasonable assurance that the grants will be received. Government grants are deferred and recognized in the income statement over the period necessary to match them with the related costs which they are intended to compensate on a systematic basis, or the carrying amount of the asset to which the grant relates is reduced by the grant. The grant is then recognized as income over the useful life of the depreciable asset by way of a reduced depreciation charge.

Inventories

Inventories are recorded at the lower of acquisition or production cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less estimated cost of completion and the necessary cost to make the sale. Production costs include direct and indirect material and production costs. Inventory is valued using the weighted average method. A valuation allowance is recognized for any damaged or slow-moving goods.

Property, Plant and Equipment

Tangible fixed assets, other than land, are recorded at historical acquisition cost less accumulated depreciation, and/or accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits will flow to the Group and the cost of the item can be measured reliably. All other repair and maintenance expense is charged to the income statement during the financial period in which they are incurred. Depreciation is recorded on a straight-line basis over the course of the useful economic life of the asset. Land is not depreciated. The general useful economic lives for various asset categories can be summarized as follows:

- Buildings (25 to 50 years),
- Fixtures and fittings (20 years),
- Plant and machinery (8 to 15 years),
- Motor vehicles (4 to 10 years),
- Furniture (5 to 10 years),
- Information technology hardware (3 to 5 years).

Gains or losses arising from the disposal of property, plant and equipment assets are recorded in the income statement as part of operating profit.

Land is shown at fair value, based on periodic valuations by external independent valuers. Increases in the carrying amount arising on revaluation of land are credited to other comprehensive income in the revaluation reserve in shareholders'equity. Decreases that offset previous increases of the same asset are charged against other comprehensive income in other reserves; all other decreases are charged to the income statement.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the income statement. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

Leases

Leases where the Group has substantially retained all the risks and rewards of ownership are classified as finance leases.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Liabilities arising from operating leases (e.g. rental contracts) include costs for offices, motor vehicles, photocopiers. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Intangible Assets

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of a subsidiary include the carrying amount of goodwill relating to the subsidiary sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

Brands with an indefinite useful life are carried at historical cost (generally fair value in a business combination) less accumulated impairment losses and are tested annually for impairment using a value in use calculation. Brands are classified as indefinite useful life brands if the brand has sufficient history and the Group has no intention of re-branding.

Brands and other intangible assets with a definite useful life are carried at historical cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the costs over their estimated useful lives:

- Brands (up to 20 years),
- Software (1 to 3 years),
- Customer relationships (up to 10 years),
- Distribution Network (up to 5 years),
- Other intangibles (3 to 5 years).

Impairment of Non-Financial Assets

Assets that have an indefinite useful life are not subject to amortization and are tested for impairment annually or when there is an indication of impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash generating units). Non-financial assets other than goodwill that were impaired are reviewed for possible reversal of the impairment at each reporting date.

Provisions

Provisions arise from restructuring programs, legal claims, and potential liabilities from normal operations. A provision is recognized in cases where the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Severance and redundancy payments relating to restructuring are provided for when the Group has committed itself to such restructuring programs, when the location, function and number of employees to be laid off or re-deployed is known and when the affected employees have been informed. Provisions are not recognized for future operating losses. In case the effect of time value is material, provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pretax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognized as interest expense.

Pension Obligations

The Group operates various post-employment schemes, including both defined benefit and defined contribution pension plans.

The pension plans in Switzerland have been set up according to the Swiss method of defined contributions but do not fulfil all the criteria of a defined contribution pension plan according to IAS 19. For this reason, the Swiss pension plans are treated as defined benefit plans in the consolidated financial statements.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

A defined benefit plan is a pension plan that is not a defined contribution plan.

Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions as well as changes in the effect of the asset ceiling are charged or credited to other comprehensive income in the period in which they arise.

Past-service costs are recognized immediately in income.

For defined contribution plans, the group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

Long Term Incentive Plan

Effective January 1, 2014, the Group issued a long term incentive plan for the executive board members. There is a two years waiting period for newly appointed executive board members before they may participate in the plan. Under the plan, the participants may be offered the opportunity to invest up to 50% of their bonus payment in shares. After a restriction period of three years, participants may sell the shares back to Hero at a price based on a formula defined in the plan. In conjunction with the plan, participants may be granted loans to fund the share issue. As the shares are restricted and will ultimately revert to the company and the share price does not reflect the fair value of the Hero shares, the Group has accounted for the plan under an IAS 19 long-term benefits model. Under the IAS 19 model, management has estimated the future payment at the end of the restriction period and the expense is recognized over a 4-year vesting period in the income statement. At each reporting date the amount is re-assessed and the impact is recognized prospectively.

Contingent Liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or present obligation that arises from past events but is not recognized because: it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or the amount of the obligation cannot be measured with sufficient reliability. Contingent liabilities are disclosed in the notes to the financial statements.

Dividends

Dividend distribution to the Group's shareholders is recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Group's shareholders.

Share Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the company's equity holders. Where any group company purchases the company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the company's equity holders.

Hybrid Capital

Hybrid capital comprises listed bonds issued to third parties. The listed bonds are undated securities in respect of which there is no maturity date and where there is no obligation on the part of Hero either to redeem at any future date the underlying nominal amounts or to pay any annual coupon insofar as no compulsory payment event occurs in any given accounting period. The key compulsory payment events listed in the terms and conditions of the bonds include the payment to Hero's shareholders of either a dividend or an amount in connection with a capital re-purchase. The bonds are subordinated obligations and are subordinate to all of Hero's present and future unsubordinated indebtedness. Coupon payments are recorded directly in equity.

6. Financial Instruments

General

The Group classifies financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition and re-evaluates this designation at every reporting date.

Financial instruments are classified as current if they are expected to be realized within 12 months of the balance sheet date.

Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held-for-trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the associated receivable. Loans and receivables comprise cash and cash equivalents, trade receivables and certain other receivables.

Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Derivative Financial Instruments and Hedge Accounting

The Group uses derivative financial instruments, such as forward currency contracts and interest rate swaps, to hedge its foreign currency risks and interest rate risks, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognised in OCI and later reclassified to profit or loss when the hedge item affects profit or loss.

For the purpose of hedge accounting, hedges are classified as cash flow hedges when hedging the exposure to variability in cash flows that is attributable to a highly probable forecast transaction.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Cash flow hedges that meet the strict criteria for hedge accounting are accounted for, as described below:

The effective portion of the gain or loss on the hedging instrument is recognised in OCI in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of profit or loss.

The Group uses forward currency contracts as hedges of its exposure to foreign currency risk in forecast transactions. The ineffective portion relating to foreign currency contracts is recognised in profit or loss.

Amounts recognised as OCI are transferred to profit or loss when the hedged transaction affects profit or loss, such as when a forecast sale occurs.

Fair Value Estimation

The fair value of publicly traded derivatives and trading and available-for-sale securities is based on quoted market prices at the balance sheet date. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date.

In assessing the fair value of non-traded derivatives and other financial instruments, the Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as option pricing models and estimated discounted value of future cash flows, are used to determine fair value for the remaining financial instruments.

The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate to their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

7. Financial Risk Management

Financial Risk Factors

The Group's activities expose it to a variety of financial risks, including the effects of: changes in debt, foreign currency exchange rates and interest rates. The Group's overall risk management program focuses on the unpredictability of financial markets and usually seeks to minimize potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as foreign exchange contracts and interest rate swaps to hedge certain exposures. In selected cases the Group takes open positions in derivative or other financial instruments which are driven by other considerations than overall risk reduction.

Risk management is carried out by a central treasury department (Group Treasury) under policies approved by the Board of Directors. Group Treasury identifies, evaluates and hedges financial risks in close co-operation with the operating units. The Board provides policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and liquidity management.

Foreign Exchange Risk

The Group uses foreign currency-denominated cash and cash equivalents, borrowings and foreign exchange forward contracts to manage some of its transaction exposures. The foreign exchange forward contracts are designated as cash flow hedges and are entered into for periods consistent with foreign currency exposure of the underlying transactions, generally from one to 18 months.

Foreign exchange forward contracts are designated as hedging instruments in cash flow hedges of forecast sales mainly in SEK, EUR and GBP and forecast purchases mainly in EUR, GBP, USD. These forecast transactions are highly probable, and they comprise about 50-75% of the Group's total expected export sales and of its total expected purchases in foreign currencies.

While the Group also enters into other foreign exchange forward contracts with the intention of reducing the foreign exchange risk of financing transactions, these are not designated in hedge relationships and are measured at fair value through profit or loss.

The terms of the foreign currency forward contracts match the terms of the expected highly probable forecast transactions. As a result, there is no hedge ineffectiveness to be recognised in the statement of profit or loss. Notional amounts are as provided in Note 22.

The Group has a number of investments in foreign subsidiaries, whose net assets are exposed to currency translation risk. The Group tries to reduce the currency exposure through borrowings in the corresponding currencies where possible and economically prudent.

The Group uses a risk computation similar to Value-at-Risk (VAR). It includes financial instruments (mainly currency forwards) as well as balance sheet positions and future operating cash flows (non-discounted) in foreign currency. The estimates are made assuming normal market conditions, using a 97.7% confidence interval. The correlations between currency pairs and the volatilities are observed over a 360 day period. The estimated potential intra-day loss in the VAR model amounts to TCHF 617 as per December 31, 2016 (2015: TCHF 798).

Foreign Currency Risk Table

The following table demonstrates the sensitivity to a reasonably possible change in the USD, GBP, SEK and EUR exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of forward foreign exchange contracts). In 2015 there was no effect on the Group's equity as the Group did not apply hedge accounting.

	increase/ (decrease) in USD/EUR/ GBP/SEK rate	Effect on profit before tax in CHF 1000.–	Effect on equity in CHF 1000.–
2016	5%	2 918	429
	(5%)	(2 918)	(429)
2015	5%	3 277	–
	(5%)	(3 277)	–

Interest Rate Risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's long-term borrowings are with fixed maturity and interest rates. The Group is only exposed to interest risk in case of re-financing of matured borrowings.

Credit Risk

The Group has policies in place to ensure that sales of products are made to customers with an appropriate credit history. Derivative counterparts and cash transactions are limited to highly creditworthy financial institutions. Other credit risk exposures are minimized by dealing only with a limited range of counterparties. The Group also makes loans to related parties. Where material the Group seeks adequate pledges or guarantees. The maximum credit risk represents net carrying value of the loans and receivables included.

Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, Group Treasury aims to maintain flexibility in funding by keeping committed credit lines available. Management monitors rolling forecasts of the Group's liquidity reserve (comprising undrawn borrowing facilities and cash and cash equivalents [note 14]) on the basis of expected cash flows.

Liquidity Risk Table

The table summarizes the maturity profile of the Group's financial liabilities at December 31 based on contractual payments.

in CHF 1000.– at December 31, 2016	Carrying value	Within 1 year	1 – 2 years	2 – 3 years	3 – 4 years	More than 5 years	Total
Derivatives							
Forward contracts – cash (inflow)	-	(1 121)	-	-	-	-	(1 121)
Forward contracts – cash outflow	-	6 966	-	-	-	-	6 966
Forward contracts – net	5 775	5 844	-	-	-	-	5 844
Borrowings	163 448	141 249	480	25 480	-	-	167 209
Debentures	264 626	3 002	3 002	3 002	133 014	137 741	279 761
Other liabilities – non current	1 262	-	1 262	-	-	-	1 262
Trade and other payables	235 319	235 319	-	-	-	-	235 319

in CHF 1000.– at December 31, 2015	Carrying value	Within 1 year	1 – 2 years	2 – 3 years	3 – 4 years	More than 5 years	Total
Derivatives							
Forward contracts – cash (inflow)	–	(543)	–	–	–	–	(543)
Forward contracts – cash outflow	–	161	–	–	–	–	161
Forward contracts – net	(507)	(382)	–	–	-	–	(382)
Trend Swap*	6 501	8 055	–	–	–	–	8 055
Borrowings	200 374	149 432	30 767	480	25 480	–	206 159
Debentures	129 522	1 619	1 619	1 619	1 619	131 141	137 617
Other liabilities – non current	2 327	–	1 163	1 164	–	–	2 327
Trade and other payables	237 054	237 054	–	–	–	–	237 054

* Future cash outflows assumed to correspond to current year's cash outflow

8. Critical Accounting Estimates, Assumptions and Judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Goodwill

The Group tests annually in December whether goodwill has suffered any impairment, in accordance with the valuation principles stated in Accounting Principle No. 5, Intangible Assets. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

These calculations use cash flow projections based on financial budgets approved by management and forecasts covering a five-year period. Cash flows beyond the five-year period are projected using the estimated growth rates stated below. The growth rates generally correspond to the inflation rates plus general real gross domestic product (GDP) growth of the corresponding country. They are individually assessed and in case where management expects a significant deviation from general economic conditions they might be adjusted. Management determined budgeted growth rates based on past performance and its expectations for the market development. Where general industry forecasts do not reflect the growth expecations of management for specific businesses, the growth rates used depart from forecasts included in such industry reports in order to better reflect the specific growth potentials expected by management.

These assumptions have been used for the analysis of each CGU.

The discount rates used are pre-tax and reflect specific risks relating to the relevant country.

The growth rate used to extrapolate cash flows beyond the budget and the pre-tax discount rate have a significant impact on the sensitivity of the impairment test. For all CGU's no reasonable possible change in any key assumptions would lead to an impairment.

In 2016, no goodwill was impaired.

Brands with indefinite life

The Group tests annually whether brands with indefinite life are impaired. These calculations require the use of estimates.

The discount rates used are pre-tax and reflect specific risks relating to the relevant country. The growth rates used to extrapolate cash flows beyond the budget and the pre-tax discount rate have a significant impact on the sensitivity of the impairment test.

In 2016, no impairment was identified.

Hero's major single goodwill and brand positions as well as managements key assumption are summarized below:

December 31, 2016 CGU	Goodwill	Indef. life Brand	Eternal growth	Wacc pre-tax	Growth rates p.a. years 2017-2022	Profit margin change between years 2017 and 2022	Impairment
	in CHF million		in %	in %	in %	in %	
Schwartauer Werke	158.4	19.6	2.0	7.4	1.8 – 2.8	(0.4)	no
Semper/Eastern Europe Infant Business	83.8	47.2	2.1	7.5	1.7 – 8.1	(1.2)	no
Signature Brands	74.5	34.3	2.3	9.7	(0.1) – 5.9	(1.3)	no
Benelux Infant	19.4	-	1.3	8.0	(16.0) – 3.3	1.8	no
Organix	24.7	20.9	2.0	8.1	1.8 – 6.8	1.5	no
Vitrac	2.7	-	7.1	26.9	(3.3) – 29.7	(0.7)	no
Beech-Nut	-	18.2	2.4	9.7	1.8 – 15.5	–	no
Kiviks	5.7	4.7	4.5	15.3	4.5 – 24.6	(1.8)	no
Other	3.2	11.0	–	–	–	–	no
TOTAL	**372.4**	**155.9**					

December 31, 2015 CGU	Goodwill	Indef. life Brand	Eternal growth	Wacc pre-tax	Growth rates p.a. years 2016-2021	Profit margin change between years 2016 and 2021	Impairment
	in CHF million		in %	in %	in %	in %	
Schwartauer Werke	159.7	19.7	1.9	9.0	1.8 – 3.7	0.4	no
Semper/Eastern Europe Infant Business	87.5	49.2	2.0	9.3	1.9 – 9.5	0.6	no
Signature Brands	72.3	33.3	2.4	10.8	2.4 – 5.4	(0.2)	no
Benelux Infant	19.4	–	1.9	10.4	1.5 – 12.9	1.5	no
Organix	28.9	24.5	2.0	9.3	2.0 – 5.6	0.8	no
Vitrac	6.2	–	7.0	24.8	7.0 – 13.0	0.2	no
Beech-Nut	–	17.6	2.4	10.8	2.3 – 19.4	–	no
Kiviks*	4.4	–	–	–	–	–	no
Other	3.3	11.1	–	–	–	–	no
TOTAL	**381.7**	**155.4**					

* restated, refer to note 21

Income taxes

As described in note 5, the Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Recognized tax loss carryforwards

The Group has recognized deferred tax assets in relation to the recoverability of tax loss carryforwards (note 11). The recoverability of such assets is based on the ability of the entity to which the losses relate to generate future taxable profits. These calculations require the use of estimates. Management re-evaluates the recoverability at each balance sheet date.

Valuation of financial instruments

As described in note 22, the Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. Note 22 provides information about the key assumptions used in the determination of the fair value of financial instruments. Management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments and are constantly applied.

Provisions

The Group has provisions for various cases based on estimates (note 18). Such estimates are based on the Group's experience, taking also into account economic conditions. Management believes that the total provisions for these items is adequate, based upon currently available information. As these provisions are based on management estimates, they may be subject to change as better information becomes available. Such changes that arise could impact the provisions recognized in the balance sheet in future periods and consequently the expenses recognized in the income statement in future periods.

Pension benefits

The cost of the defined benefit pension plan and the present value of the pension obligation are determined using actuarial valuations (note 17). An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptionsare reviewed at each reporting date.

9. Capital Management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

In connection with external financing the Group is required to maintain a minimum level of net equity. During 2016 and 2015 the Group complied with this requirement. See also comments in note 16 on "Covenants".

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new capital. Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. No changes were made in the objectives, policies or processes during the years ended December 31, 2016, and December 31, 2015.

This gearing ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including ''current and non-current borrowings'' as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as ''equity'' as shown in the consolidated balance sheet plus net debt.

The gearing ratios at December 31, 2016, and December 31, 2015, were as follows:

in CHF 1000.-	2016	2015
Total borrowings / debentures	428 074	329 896
Less: cash and cash equivalents	(99 039)	(163 711)
Net debt	329 035	166 185
Equity attributable to the equity holders of the parent	672 236	834 124
Gearing ratio	49%	20%

The increase in the gearing ratio is due to the refinancing of the hybrid capital which was partly repayed, partly replaced by new hybrid capital and bond liabilities.

1. DETAILS ON OTHER INCOME / EXPENSE

in CHF 1000.–	Note	2016	2015
Government grants	4	405	347
Insurance recovery		4 931	455
Compensation for damages		496	297
Stock refunds		558	369
Reversal accruals and provision		1 150	371
Asset disposal		47	–
Other		482	311
TOTAL OTHER INCOME		**8 069**	**2 150**
Restructuring		(855)	(1 383)
Compensation and destruction of channel inventory		(258)	(5 540)
Other		–	(1 373)
TOTAL OTHER EXPENSE		**(1 113)**	**(8 296)**

Insurance recovery in 2016 represents an insurance refund for quality issues in the US.

In 2016, restructuring expenses mainly relate to reorganizational change in the scope of business in the country organizations of the US, Spain, UK, Germany, Eastern Europe and at corporate level.

In 2015 restructuring expenses mainly relate to reorganizational changes in the scope of business in the country organizations of the US, Spain, UK, Germany and at corporate level.

2. FINANCE INCOME/EXPENSE

in CHF 1000.–	2016	2015
Interest income	1 298	1 395
Fair value gains on financial instruments held for trading	2 636	3 379
Other financial income	83	10
TOTAL FINANCE INCOME	**4 017**	**4 784**
Interest expense	(5 548)	(5 951)
Net foreign exchange losses	(7 023)	(4 761)
Fair value losses on financial instruments held for trading	(8 993)	(5 057)
Other financial expense	(3 890)	(2 586)
TOTAL FINANCE EXPENSE	**(25 454)**	**(18 355)**

3. ADDITIONAL INFORMATION ON THE NATURE OF EXPENSE

in CHF 1000.–	Note	2016	2015
Wages and salaries		(183 441)	(174 191)
Social security costs		(40 090)	(36 929)
Pension costs – defined contribution plans		(3 651)	(4 019)
Pension costs – defined benefit plans	17	(3 842)	(3 111)
TOTAL PERSONNEL EXPENSE		**(231 024)**	**(218 250)**

The Group employed 3'900 employees in 2016 (2015: 3'747).

Depreciation, amortization and impairments are included in the consolidated statement of income as follows:

Year ended December 31, 2016		Property, plant and equipment	Intangible assets	
	Note	Depreciation	Amortization	Impairment
Cost of sales		(26 983)	(216)	-
Distribution expense		(931)	-	-
Advertising and promotion		(20)	-	-
Marketing and sales		(217)	(2 287)	-
Research and development		(765)	(794)	-
Administrative expense		(3 016)	(4 575)	-
TOTAL	**7, 8**	**(31 932)**	**(7 872)**	**-**

Year ended December 31, 2015		Property, plant and equipment	Intangible assets	
	Note	Depreciation	Amortization	Impairment
Cost of sales		(24 355)	(193)	-
Distribution expense		(767)	(2)	-
Marketing and sales		(198)	(3 173)	-
Research and development		(809)	(945)	(146)
Administrative expense		(3 049)	(4 066)	-
TOTAL	**7, 8**	**(29 178)**	**(8 379)**	**(146)**

4. GOVERNMENT GRANTS DEDUCTED FROM EXPENSE

in CHF 1000.–	2016	2015
Government grants for Beech-Nut infant food plant	2 007	1 776
Spanish education grant	77	-
Export subsidies in Egypt	560	722
Government grants for research project in Spain	-	362
Government grants for Schwartauer Werke jam factory	327	321
Other	97	57
TOTAL GOVERNMENT GRANTS	**3 068**	**3 238**

Government grants are deducted from the following type of expense:

in CHF 1000.–	Note	2016	2015
Government grants deducted from cost of sales		2 663	2 618
Government grants deducted from research and development		-	270
Government grants included in other income	1	405	347
Government grants deducted from other expense		-	3
TOTAL GOVERNMENT GRANTS		**3 068**	**3 238**

5. INCOME TAX

in CHF 1000.–	2016	2015
Current income tax expense	(12 173)	(14 576)
Current income tax expense relating to prior periods	(3 503)	(830)
Deferred tax expense	(3 340)	(7 424)
TOTAL INCOME TAX EXPENSE	**(19 016)**	**(22 830)**

Analysis of tax rate

The variation in the Group's average expected tax rate is caused by changes in profitability of the Group's subsidiaries in the various jurisdictions, as well as changes in local statutory tax rates.

The main elements contributing to the difference between the Group's overall expected tax rate (the weighted average tax rate based on the results before tax of each subsidiary) and the effective tax expense are:

in CHF 1000.–	2016	2015
Income before taxes	92 402	94 650
Tax expense based on expected Group tax rate of the year	(16 623)	(19 080)
	18.0%	20.2%
Impact of expense not entitled for deduction for tax purposes	(3 603)	(2 584)
Impact of non taxable income and exclusively tax deductible expense	14 787	6 922
Impact of tax expense related to profits of other periods and other items	(3 326)	5 206
Utilization of previously unrecognized tax losses	-	77
Reassessment of recognized tax losses of prior periods	(8 848)*	(19 163)**
Impact of unrecognized tax losses of current period	(4 646)	(526)
Impact of deferred taxes on hybrid coupon	4 176	5 680
Impact of difference between statutory and deferred tax rate	(872)	1 546
Impact of changes in the local tax rates	(61)	(908)
EFFECTIVE GROUP TAX EXPENSE	**(19 016)**	**(22 830)**

* Mainly relates to US and Swiss tax loss carry forwards which were reassessed in 2016.

** Mainly relates to US tax loss carry forwards which were reassessed in 2015.

6. DIVIDEND

At the Annual General Meeting in 2017 a dividend in respect of 2016 of CHF 5.75 per share amounting to a total dividend of CHF 35.7 million is to be proposed (2016: CHF 13.6 million). These financial statements do not reflect this dividend payable, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending December 31, 2017.

7. PROPERTY, PLANT AND EQUIPMENT

in CHF 1000.–	Note	Land	Buildings	Plant and machinery	Other equipment	Total
Cost or valuation						
BALANCE AT JANUARY 1, 2015		**35 606**	**271 129**	**372 705**	**33 341**	**712 781**
Additions		–	3 166	22 948	7 107	33 221
Acquisition of subsidiary*	21	2 840	8 155	1 891	417	13 303
Decrease/disposals of assets		(2 682)	(12 129)	(17 785)	(985)	(33 581)
Revaluations		62	–	–	–	62
Foreign exchange differences		(3 232)	(11 117)	(24 096)	(2 431)	(40 876)
BALANCE AT DECEMBER 31, 2015*/ JANUARY 1, 2016		**32 594**	**259 204**	**355 663**	**37 449**	**684 910**
Additions		-	2 116	35 665	3 223	41 004
Decrease/disposals of assets		(30)	(1 033)	(3 251)	(1 818)	(6 132)
Reclassifications		-	741	54	(1 202)	(407)
Foreign exchange differences		(317)	58	(6 764)	(3 507)	(10 530)
BALANCE AT DECEMBER 31, 2016		**32 247**	**261 086**	**381 367**	**34 145**	**708 845**
Accumulated depreciation						
BALANCE AT JANUARY 1, 2015		**5**	**68 806**	**241 774**	**22 621**	**333 206**
Additions		1	7 618	18 540	3 019	29 178
Decrease/disposals of assets		–	(11 523)	(17 653)	(915)	(30 091)
Foreign exchange differences		–	(4 801)	(17 151)	(1 655)	(23 607)
BALANCE AT DECEMBER 31, 2015/ JANUARY 1, 2016		**6**	**60 100**	**225 510**	**23 070**	**308 686**
Additions		1	7 967	20 779	3 185	31 932
Decrease/disposals of assets		-	(20)	(2 685)	(1 518)	(4 223)
Reclassifications		-	(5)	(125)	(29)	(159)
Foreign exchange differences		-	(1 016)	(6 021)	(2 081)	(9 118)
BALANCE AT DECEMBER 31, 2016		**7**	**67 026**	**237 458**	**22 627**	**327 118**
Carrying amount						
At January 1, 2016		32 588	199 104	130 153	14 379	**376 224**
At December 31, 2016		32 240	194 060	143 909	11 518	**381 727**

* restated, refer to note 21

Revaluation of land

Land is carried at revalued amounts. Revalued amounts of land relate to Spain and Turkey (2015: Spain and Turkey). The land in the Netherlands was sold in 2015.

If land were stated on the historical cost basis, the amounts would be as follows:

in CHF 1000.–	2016	2015
Land at historical cost	23 901	21 573
Land at historical depreciation	(7)	(6)
NET BOOK AMOUNT	**23 894**	**21 567**

Fair value of the land was determined by using market comparable method. This means that valuations performed by the appraiser are based on active market prices, adjusted for difference in the nature, location or condition of the specific land. The last external valuation for Spain was carried out in December 2013 by Tisa and for Turkey in September 2015 by TSKB. Both companies are accredited independent valuers. As significant unobservable valuation input the price per square meter in Spain was in a range between EUR 66 to EUR 317 and in Turkey between TRY 560 to TRY 880 depending on the land condition. In the fair value measurement hierarchy of the Group land is classified as level 3 instrument using significant unobservable inputs.

8. INTANGIBLE ASSETS

in CHF 1000.–	Note	Goodwill	Brands	Customer Relations/ Distribution networks	Other intangible assets	Total
Cost						
BALANCE AT JANUARY 1, 2015		**449 939**	**227 648**	**89 711**	**72 350**	**839 648**
Additions		–	19	–	3 222	3 241
Acquisition of subsidiary*	21	4 861	4 001	5 170	–	14 032
Decrease/disposals of assets		–	–	–	(28)	(28)
Reclassifications		–	–	3 165	(7 907)	(4 742)
Foreign exchange differences		(28 964)	(7 650)	(642)	(1 377)	(38 633)
BALANCE AT DECEMBER 31, 2015*/ JANUARY 1, 2016		**425 836**	**224 018**	**97 404**	**66 260**	**813 518**
Additions		-	-	-	4 263	4 263
Decrease/disposals of assets		-	(8)	(2 753)	(593)	(3 354)
Reclassifications		-	-	-	282	282
Foreign exchange differences		(13 710)	(3 416)	1 038	(224)	(16 312)
BALANCE AT DECEMBER 31, 2016		**412 126**	**220 594**	**95 689**	**69 988**	**798 397**
Accumulated amortization						
BALANCE AT JANUARY 1, 2015		**44 851**	**61 185**	**79 584**	**54 456**	**240 076**
Additions		–	1 528	2 663	4 188	8 379
Acquisition of subsidiary*	21	–	–	40	1	41
Impairments		–	–	–	146	146
Decrease/disposals of assets		–	–	–	(112)	(112)
Reclassifications		–	(4 742)	–	–	(4 742)
Foreign exchange differences		(696)	(262)	(555)	(1 179)	(2 692)
BALANCE AT DECEMBER 31, 2015*/ JANUARY 1, 2016		**44 155**	**57 709**	**81 732**	**57 500**	**241 096**
Additions		-	1 526	1 532	4 814	7 872
Decrease/disposals of assets		-	-	(2 753)	(533)	(3 286)
Foreign exchange differences		(4 465)	203	23	74	(4 165)
BALANCE AT DECEMBER 31, 2016		**39 690**	**59 438**	**80 534**	**61 855**	**241 517**
Carrying amount						
At January 1, 2016		381 681	166 309	15 672	8 760	**572 422**
At December 31, 2016		372 436	161 156	15 155	8 133	**556 880**

* restated, refer to note 21

Other intangibles

Other intangibles mainly include licenses, software, patents and recipes.

Recognised development costs

In 2016, development costs in the amount of TCHF 500 were capitalized (2015: TCHF 490).

Impairment tests for goodwill

Goodwill and intangible assets with indefinite useful lives are allocated to the respective cash-generating units (CGUs), which for Goodwill primarily represents the legal entity. The recoverable amount of a CGU is determined based on value-in-use calculations. Refer to accounting policies no. 8 for information about impairment testing and corresponding estimates.

Impairment of Goodwill and Brands

In 2016 as well as in 2015, the recoverable amounts exceeded the carrying amounts for all CGU's.

9. SEGMENT REPORTING

For management purposes, the Group is organized based on geographical areas and has three reportable operating segments: Europe, North America and Emerging Markets.

The segment Europe produces and sells mainly consumer food products such as jams, healthy snacks, baby and toddler food, baby and toddler milk and specialities.

The segment North America produces and sells mainly consumer food products such as baby and toddler food and specialities.

The segment Emerging Markets mainly includes Turkey, Egypt, Russia, China and Brazil and produces and sells mainly consumer food products such as jams, healthy snacks, baby and toddler food and baby and toddler milk.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies.

Trading operating profit excludes amortization and impairment as well as exceptional charges.

Net working capital external is composed of income tax receivables, trade and other receivables, prepayments and inventories less trade and other payables, short-term income tax payables and short-term provisions.

Non-current assets comprise property, plant and equipment and intangible assets excluding goodwill.

INFORMATION ABOUT GEOGRAPHICAL AREAS

for the year ended December 31, 2016 in CHF 1000.–	Europe	North America	Emerging Markets	Un-allocated	Total
Net sales external	815 273	292 335	161 561	-	1 269 169
Trading Operating profit	116 916	17 763	23 151	(35 310)	122 520
Amortization					(7 872)
Other expense					(809)
Financial result					(21 437)
Income before tax					92 402
Depreciation and amortization	(20 659)	(15 168)	(3 977)	-	(39 804)
Net working capital external	28 385	49 875	22 563	2 262	103 085
Capex (tangible)	(15 518)	(21 966)	(3 520)	-	(41 004)

INFORMATION ABOUT MAJOR COUNTRIES

in CHF 1000.–	Switzer-land*	Germany	Spain	USA	Other	Total
Net sales external	77 909	233 703	162 407	292 336	502 814	1 269 169
Non-current assets	57 791	80 754	46 485	259 592	121 548	566 170

* Country of domicile

INFORMATION ABOUT CATEGORIES

in CHF 1000.–	Jams	Healthy Snacks	Baby and toddler food	Baby and toddly milk	Speciali-ties	Total
Net sales external	259 007	102 812	374 219	128 683	404 448	1 269 169

INFORMATION ABOUT GEOGRAPHICAL AREAS

for the year ended December 31, 2015 in CHF 1000.–	Europe	North America	Emerging Markets	Un-allocated	Total
Net sales external	807 059	294 215	159 294	–	1 260 568
Trading Operating profit	107 685	25 266	19 962	(31 446)	121 467
Amortization / Impairment					(8 525)
Other income / expense					(4 720)
Financial result					(13 571)
Income before tax					94 650
Depreciation and amortization	(20 317)	(14 331)	(2 909)	–	(37 557)
Impairment losses	(146)	–	–	–	(146)
Net working capital external	23 699	55 420	24 465	(567)	103 017
Capex (tangible)	(20 375)	(7 595)	(5 251)	–	(33 221)

INFORMATION ABOUT MAJOR COUNTRIES

in CHF 1000.–	Switzer-land*	Gemany	Spain	USA	Other	Total
Net sales external	80 338	218 073	165 634	294 215	502 308	1 260 568
Non-current asset	60 909	84 035	48 170	243 921	118 547	555 582

* Country of domicile

INFORMATION ABOUT CATEGORIES

in CHF 1000.–	Jam	Healthy Snacks	Baby and toddler food	Baby and toddler milk	Specialities	Total
Net sales external	249 597	88 249	376 236	139 324	407 162	1 260 568

10. NON-CURRENT RECEIVABLES

in CHF 1000.–	Note	2016	2015*
Reimbursement rights of Schwartauer Werke		2 755	3 007
Loans to third parties	22	180	174
Long term incentive plan loan receivable	23	1 366	862
Prepaid customer incentives		2 140	3 157
Other non-current receivables		790	685
TOTAL NON-CURRENT RECEIVABLES		**7 231**	**7 885**

Loans to third parties represent a loan to a former employee.

* restated, refer to note 21

11. DEVELOPMENT OF DEFERRED TAX ASSETS AND LIABILITIES

in CHF 1000.–	Deferred tax assets 2016	Deferred tax liabilities 2016	Deferred tax assets 2015	Deferred tax liabilities 2015*
Assets				
Property, plant and equipment	1 511	43 971	76	42 910
Intangible assets	3 877	30 339	5 059	30 395
Financial assets	121	1 236	43	1 471
Trade receivables, prepayments and other receivables	1 674	-	4 528	–
Inventories	2 768	432	2 399	667
Liabilities				
Net employee defined benefit liabilities	12 621	-	8 743	–
Accruals and provisions	6 131	10 129	8 544	12 356
Trade and other payables	2 351	1	3 174	–
Financial liabilities	41 532	55	40 264	–
Capitalized unused tax losses and tax credits	75 058	-	74 802	–
TOTAL DEFERRED TAXES	**147 644**	**86 163**	**147 632**	**87 799**
DEFERRED TAXES, NET	**61 481**	**-**	**59 833**	**–**

Reflected in the consolidated balance sheet as follows:

in CHF 1000.–	2016	2015*
Deferred tax assets	98 299	99 736
Deferred tax liabilities	36 818	39 903
DEFERRED TAX ASSETS, NET	**61 481**	**59 833**

Unrecognized deferred tax assets for unused tax losses

in CHF 1000.–	2016	2015
Unrecognized deferred tax assets expire in:		
reporting year +1	59	619
reporting year +2	637	70
reporting year +3	-	747
reporting year +4	4 574	-
reporting year +5 and beyond	23 926	18 536
TOTAL UNRECOGNIZED DEFERRED TAX ASSETS FOR UNUSED TAX LOSSES	**29 196**	**19 972**

* restated, refer to note 21

Net deferred tax assets

in CHF 1000.–	Note	2016	2015*
Balance at January 1		59 833	65 947
Deferred tax from acquisition of subsidiary	21	-	(3 870)
Deferred tax expense		(3 340)	(7 424)
Deferred taxes directly recognized in OCI	15	2 766	4 776
Foreign exchange differences		2 222	404
BALANCE AT DECEMBER 31		**61 481**	**59 833**

* restated, refer to note 21

At December 31, 2016, there was no recognized deferred tax liability (2015: 0) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries.

The temporary differences associated with investments in subsidiaries for which a deferred tax liability has not been recognized, aggregate to CHF 59.2 million (2015: CHF 65.4 million).

12. INVENTORIES

in CHF 1000.–	2016	2015
Raw materials and supplies	57 318	61 699
Work-in-progress	9 986	10 872
Finished goods	106 626	103 000
TOTAL INVENTORIES	**173 930**	**175 571**
Write down of inventories	(8 039)	(5 687)
Inventory expensed in cost of sales	(785 335)	(776 390)

13. TRADE RECEIVABLES, PREPAYMENTS AND OTHER RECEIVABLES

in CHF 1000.–	Note	2016	2015
Trade receivables from customers		153 572	157 493
Less: Allowance for bad and doubtful trade receivables		(3 062)	(3 843)
TRADE RECEIVABLES NET	**22**	**150 510**	**153 650**
Prepayments		6 143	6 604
Loans to related parties	22	13 952	-
VAT		8 561	8 848
Other receivables		11 771	13 791
TOTAL RECEIVABLES AND PREPAYMENTS		**190 937**	**182 893**

Allowance for bad and doubtful trade receivables

in CHF 1000.–	2016	2015
Balance at January 1	(3 843)	(4 316)
Charge for the year	(330)	(519)
Amounts written off	556	507
Unused amounts reversed	62	14
Exchange rate differences	493	471
BALANCE AT DECEMBER 31	**(3 062)**	**(3 843)**

Maturity of trade receivables

Year ended December 31, 2016 in CHF 1000.–	Total carrying amount	Of which are not overdue	Overdue < 30 days	Overdue 30-60 days	Overdue 60-90 days	Overdue 90-120 days	Overdue > 120 days
Trade receivables, gross	153 572	137 411	7 520	4 008	1 297	789	2 547
Allowance	(3 062)	(1 100)	(93)	(144)	(136)	(55)	(1 534)
TRADE RECEIVABLES, NET	**150 510**	**136 311**	**7 427**	**3 864**	**1 161**	**734**	**1 013**

Year ended December 31, 2015 in CHF 1000.–	Total carrying amount	Of which are not overdue	Overdue < 30 days	Overdue 30-60 days	Overdue 60-90 days	Overdue 90-120 days	Overdue > 120 days
Trade receivables, gross	157 493	136 095	8 981	4 347	3 821	1 370	2 879
Allowance	(3 843)	(595)	(148)	(169)	(256)	(392)	(2 283)
TRADE RECEIVABLES, NET	**153 650**	**135 500**	**8 833**	**4 178**	**3 565**	**978**	**596**

Other receivables consist primarily of balances resulting from government subsidies, deposits paid, refundable taxes and tax credits.

14. CASH AND CASH EQUIVALENTS

in CHF 1000.–	Note	2016	2015
Cash at banks		98 782	161 059
Cash equivalents		257	2 652
TOTAL CASH AND CASH EQUIVALENTS	**22**	**99 039**	**163 711**

Cash and cash equivalents at the end of the period include deposits with banks of CHF 11.1 million (2015: CHF 26.2 million) held by some subsidiaries which are not freely transferable to the holding company because those deposits are used to secure bank facilities and guarantees or blocked by exchange control regulations.

Cash equivalents contain cheques.

The weighted average effective interest rate on cash and cash equivalents in 2016 was 0.63% (2015: 0.41%).

15. SHARES, HYBRID CAPITAL AND OTHER RESERVES

Number of shares

	2016	2015
Common stock	6 151 600	6 151 600
Treasury shares	53 094	35 575
TOTAL SHARES AT DECEMBER 31	**6 204 694**	**6 187 175**

Common stock represents all of the registered and authorized shares with a par value of CHF 10 per share. All issued shares are fully paid.

Treasury shares are held in connection with the long term incentive plan. Treasury shares held by key management are not available for distribution.

Hybrid capital

in CHF 1000.–	2016	2015
Hybrid capital third parties	198 779	334 542
TOTAL HYBRID CAPITAL AT DECEMBER 31	**198 779**	**334 542**

Hybrid Capital Third Parties

On October 28, 2016 Hero issued CHF 200 million Perpetual Callable Subordinated Bonds. The bonds bear interest on their principal amount at a fixed rate of 2.125% p.a. from the payment date up to October 27, 2023, and thereafter in respect of each successive five-year period at a fixed rate per annum as determined by the Principal Paying Agent in accordance with condition 2.2 of the Terms of the Bonds. The terms and conditions of the bonds are such, that in accordance with IAS 32, the bonds qualify for treatment as equity in the financial statements of the Group. Payments of the coupons relating to the bonds are recorded as distribution on hybrid capital third parties.

In 2010 Hero issued CHF 100 million Undated Fixed to Floating Rate Subordinated Bonds in addition to the CHF 400 million Undated Fixed to Floating Rate Subordinated Bonds issued in October 2009. Hero repurchased until December 31, 2015 a total nominal amount of CHF 159.0 million. The remaining bonds were fully repaid on October 28, 2016.

Other reserves

in CHF 1000.–	Re-valuation reserve	Legal reserves	Cash flow hedge reserve	Pensions reserve	Equity loans tax impact	Foreign currency trans-lation reserve	Total
BALANCE AT JANUARY 1, 2015	**25 766**	**25 758**	**–**	**(30 120)**	**(2 612)**	**(136 412)**	**(117 620)**
Revaluation of land	(2 454)	–	–	–	–	–	(2 454)
Remeasurements	–	–	–	(3 980)	–	–	(3 980)
Tax effects	1 509	–	–	3 364	(97)	–	4 776
Foreign exchange differences	–	–	–	–	–	(49 076)	(49 076)
BALANCE AT DECEMBER 31, 2015 / JANUARY 1, 2016	**24 821**	**25 758**	**–**	**(30 736)**	**(2 709)**	**(185 488)**	**(168 354)**
Hedge accounting	–	–	(326)	–	–	–	(326)
Remeasurements	–	–	–	(10 859)	–	–	(10 859)
Tax effects	–	–	79	2 820	(133)	–	2 766
Foreign exchange differences	–	–	–	–	–	(48 671)	(48 671)
BALANCE AT DECEMBER 31, 2016	**24 821**	**25 758**	**(247)**	**(38 775)**	**(2 842)**	**(234 159)**	**(225 444)**

Revaluation reserve

The revaluation reserve is used to record increases in the fair value of assets and decreases to the extent that such decrease relates to an increase on the same asset previously recognized in other comprehensive income.

Legal reserves

Legal reserves are not available for distribution.

Cash flow hedge reserve

The effective portion of the gain or loss on hedging instruments is recongized in other comprehensive income and is transferred to profit and loss when the forecast transaction occurs.

Pensions reserve

Pensions reserve contains remeasurement gains and losses of defined benefit pension plans.

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign operations and on translation of equity loans.

16. BORROWINGS

in CHF 1000.–	Note	2016	2015
Current			
Bank borrowings and overdrafts		134 294	130 834
Loan liabilities third parties		251	242
Loan liabilities related and associated companies	23	-	9 738
Loan liabilities non-controlling interests shareholders	23	807	950
TOTAL CURRENT BORROWINGS	**22**	**135 352**	**141 764**
Non-current			
Bank borrowings	22	27 260	57 132
Loan liabilities third parties	22	836	1 003
Loan liabilities related and associated companies	22, 23	-	475
Debentures	22	264 626	129 522
TOTAL NON-CURRENT BORROWINGS		**292 722**	**188 132**

Covenants

Hero is engaged in different kinds of financings and most of them are related to certain covenants. The main covenants are Net Debt / EBITDA and interest coverage. As per December 31, 2016 and 2015 no covenant was breached.

Bank and loan liabilities

The weighted average effective interest expense rate for bank and loan liabilities in 2016 was 1.70% (2015: 1.36%).

The interest rates for the majority of current bank overdrafts and loan liabilities were between 0.60% and 5.00%. Non-current borrowings had fixed interest rates between 1.12% and 1.92%.

Debentures

Debentures of CHF 130 million issued in 2013 mature on June 26, 2020 and carry an interest rate of 1.25%.

Debentures of CHF 135 million issued in 2016 mature on October 28, 2026 and carry interest of 1.0%

17. DEFINED BENEFIT OBLIGATIONS

Depending on the legal, economic and fiscal circumstances in each country, different retirement benefit systems are provided for the employees of the Group. As a rule, these systems are based on length of service and salary of the employees. Pension obligations in the Group relate to both defined benefit and defined contribution plans. Defined benefit plans are funded and unfunded. Most Group companies sponsor defined benefit pension schemes which are funded by payments to separate trustee-administered funds. The obligations of German companies are unfunded. The latest actuarial valuations under IAS 19 were carried out as at December 31, 2016, for all significant pension plans.

The Group's largest pension plans are in Switzerland and Germany (Schwartauer Werke). They account for 85% (2015: 85%) of the Group's defined benefit obligations and 87% (2015: 87%) of the Group's plan assets.

Pension plans in Switzerland

Pension plans are governed by the Swiss Federal Law on Occupational Retirement, Survivors' and Disability Pension Plans (BVG), which stipulates that pension plans are to be managed by independent, legally autonomous units. Pension plans are overseen by a regulator as well as by a state supervisory body. A pension plan's most senior governing body (Board of Trustees) must be composed of equal numbers of employee and employer representatives.

Plan participants are insured against the financial consequences of old age, disability and death. The various insurance benefits are governed in regulations, with the BVG specifying the minimum benefits that are to be provided. The employer and employees pay contributions to the pension plan. In case of an underfunding, various measures can be taken such as the adjustment of the pension commitment by altering the conversion rates or increasing current contributions. The employer can also make additional restructuring contributions. The BVG prescribes how employees and employer have to jointly fund potential restructurings.

The Swiss pension plan "Hero Pensionskasse" has the legal structure of a foundation. All actuarial risks are borne by the foundation. These risks consist of demographic risks (primarily life expectancy) and financial risks (primarily the discount rate, future increases in salaries/wages, and the return on plan assets) and are regularly assessed by the Board of Trustees. In addition, an annual actuarial report is drawn up in accordance with the requirements of the BVG. The report is not produced using the projected unit credit method, as required by IFRS. The definitive funded status according to the BVG is determined in the first quarter of the following year. According to estimates, the funded status at December 31, 2016, is 106% (2015: 105%, final). In addition, a report is prepared annually in accordance with IFRS requirements.

The Board of Trustees is responsible for the investment of the assets. It defines the investment strategy whenever necessary – especially in the case of significant market developments or changes to the structure of the plan participants. When defining the investment strategy, it takes account of the foundation's objectives, benefit obligations and risk capacity. The investment strategy is defined in the form of a long-term target asset structure (investment policy). The Board of Trustees delegates the implementation of the investment policy – in accordance with the investment strategy as well as various principles and objectives – to an external Investment Trust. The funded plans also include "Pensionskasse der Direktionsmitglieder der Hero Schweiz AG" (an extra-mandatory, semi-autonomous management pension plan). The purpose of this pension plan for employees in management functions is to extend the insurance cover provided by the existing pension plan.

The Swiss pension plans are treated as defined benefit plans under IAS 19 because both the actuarial risks and the investment risks are borne not only by the insured but also by the company.

Pension plan Schwartauer Werke, Germany

Schwartauer Werke grants pension benefits to its employees in addition to the state plan. The plan is an unfunded plan and the risks associated to the plan are covered by pension liabilities of Schwartauer Werke, and reimbursement rights under an insurance policy. The rights to reimbursement are under an insurance policy that exactly matches the amount and timing of some of the benefits payable under the pension scheme. They are disclosed as an asset (see note 10). The book value of the reimbursement rights in 2016 is TCHF 2'755 (2015: TCHF 3'007).

Employee benefits are mainly based on three components: 1) direct obligation with no contributions of employees; 2) indirect obligations with no contributions of employees; 3) direct obligation with contributions of employees.

All employees under regular and permanent employment are entitled to participate in the plan. Employees need to have a minimum age of 30 years and a minimum time of service of three years. Employees are entitled to retirement capital, early retirement capital, old-age pension, invalidity pension and survivor benefits depending on the employees reinsurance value.

Multi-employer plans

The Group has multi-employer defined benefit plans in the US, The Netherlands and Sweden. For these plans there is no consistent and reliable basis for allocating the obligation, plan assets and cost of the plans to the individual entities participating in the plan. Therefore, defined benefit accounting cannot be used and these plans are treated as a defined contribution plans in accordance with IAS 19. Expected contributions for 2017 are TCHF 1'737.

The most significant multi-employer plan is Beech-Nut Bakery and Confectionery Union and Industry International Health Benefits and Pension Fund. It is funded by employer contributions made pursuant to collective bargaining agreements between employers and the Bakery, Confectionary, Tobacco Workers and Grain Millers International Union. The plan is funded on an hours worked basis. The rate is set based on the pension rules. The plan rates are set by the Pension Board of Trustees. This Board consists of 6 employers and 6 union officials. Beech-Nut's share in the scheme is approximately 0.3% of the plan (2015: 0.3%).

The scheme shows based on latest information a USD 5.2 billion deficit (2015: USD 4.8 billion deficit). Therefore the scheme is in a "workout plan" – a federal requirement for funds less than 65% funded. The work-out plan requires the fund to get above 65% funding within 10 years and it requires an actuarial certified plan. This work-out plan has triggered a reset of pension contributions for employers at the next renegotiation of the union contract.

The table below outlines where the Group's post-employment amounts and activity are included in the financial statements:

Post-employment amounts in the financial statements:

in CHF 1000.–	2016	2015
Balance sheet obligations for:		
Defined pension benefits	83 456	74 478
LIABILITY IN THE BALANCE SHEET	**83 456**	**74 478**
Income statement charge included in operating profit for:		
Defined pension benefits	3 842	3 111
INCOME STATEMENT CHARGE	**3 842**	**3 111**
Remeasurements for:		
Defined pension benefits	10 859	3 980
OTHER COMPREHENSIVE INCOME	**10 859**	**3 980**

Amounts recognized in the balance sheet:

in CHF 1000.–	2016	2015
Switzerland		
Present value of funded obligations	103 795	107 339
(Fair value of plan assets)	(87 527)	(91 620)
Deficit of funded obligations	16 268	15 719
Impact of asset ceiling	2 362	1 723
LIABILITY IN THE BALANCE SHEET	**18 630**	**17 442**
Germany		
Present value of unfunded obligations	49 627	43 051
LIABILITY IN THE BALANCE SHEET	**49 627**	**43 051**
Other		
Present value of funded obligations	16 312	15 887
(Fair value of plan assets)	(13 259)	(13 433)
Deficit of funded obligations	3 053	2 454
Present value of unfunded obligations	10 980	9 941
Total deficit of defined benefit pension plans	14 033	12 395
Impact of asset ceiling	1 166	1 590
LIABILITY IN THE BALANCE SHEET	**15 199**	**13 985**
Total		
Present value of funded obligations	120 107	123 226
(Fair value of plan assets)	(100 786)	(105 053)
Deficit of funded obligations	19 321	18 173
Present value of unfunded obligations	60 607	52 992
Total deficit of defined benefit pension plans	79 928	71 165
Impact of asset ceiling	3 528	3 313
LIABILITY IN THE BALANCE SHEET	**83 456**	**74 478**

Movement in the net defined benefit obligation over the year:

in CHF 1000.–	Present value of obligation	Fair value of plan assets	Total	Impact of minimum funding requirement/ asset ceiling	Total
BALANCE AT JANUARY 1, 2015	**179 628**	**(104 111)**	**75 517**	**3 052**	**78 569**
Current service cost	2 330	–	2 330	–	2 330
Past service cost	(735)	–	(735)	–	(735)
Interest expense/(income)	2 880	(1 364)	1 516	–	1 516
	4 475	**(1 364)**	**3 111**	**–**	**3 111**
Remeasurements:					
Return on plan assets, excluding amounts included in interest expense/(income)	–	381	381	–	381
Gain from change in demographic assumptions	(904)	–	(904)	–	(904)
Loss from change in financial assumptions	2 555	–	2 555	–	2 555
Experience losses	1 905	–	1 905	–	1 905
Change in asset ceiling, excluding amounts included in interest expense	(272)	–	(272)	315	43
	3 284	**381**	**3 665**	**315**	**3 980**
Contributions:					
Employers	–	(2 181)	(2 181)	–	(2181)
Plan participants	1 169	(1 169)	–	–	–
Payments from plans:					
Benefit payments	(6 022)	3 103	(2 919)	–	(2 919)
Foreign exchange differences	(6 315)	288	(6 027)	(55)	(6 082)
BALANCE AT DECEMBER 31, 2015/JANUARY 1, 2016	**176 219**	**(105 053)**	**71 166**	**3 312**	**74 478**
Current service cost	2 372	-	2 372	-	2 372
Interest expense/(income)	2 475	(1 005)	1 470	-	1 470
	4 847	**(1 005)**	**3 842**	**-**	**3 842**
Remeasurements:					
Return on plan assets, excluding amounts included in interest expense/(income)	-	(2 532)	(2 532)	-	(2 532)
Loss from change in demographic assumptions	459	-	459	-	459
Loss from change in financial assumptions	11 855	-	11 855	-	11 855
Experience losses	296	2	298	-	298
Change in asset ceiling, excluding amounts included in interest expense	344	-	344	435	779
	12 954	**(2 530)**	**10 424**	**435**	**10 859**
Contributions:					
Employers	-	(2 221)	(2 221)	-	(2 221)
Plan participants	1 282	(1 282)	-	-	-
Payments from plans:					
Benefit payments	(13 437)	10 570	(2 867)	-	(2 867)
Foreign exchange differences	(1 149)	735	(414)	(221)	(635)
AT DECEMBER 31, 2016	**180 716**	**(100 786)**	**79 930**	**3 526**	**83 456**

Two plans have a surplus that is not recognized on the basis that future economic benefits are not available to the entity in the form of a reduction in future contributions or a cash refund.

Significant actuarial assumptions:

	Switzerland		Germany		Other*	
in %	2016	2015	2016	2015	2016	2015
Discount rate	0.50	0.60	1.20	2.50	2.32	3.25
Salary growth rate	1.00	1.00	3.00	3.00	0.04	0.03
Pension growth rate	0.00	0.00	2.00	2.00	1.28	1.19

* weighted average

Assumptions regarding future mortality:

Average life expectancy in years for a pensioner retiring at age 65:

	Switzerland		Germany		Other*	
in years	2016	2015	2016	2015	2016	2015
Retiring at the end of the reporting period:						
Male	22	22	19	19	21	22
Female	24	24	23	23	24	24
Retiring 20 years after the end of the reporting period:						
Male	24	23	22	22	23	22
Female	26	25	26	26	25	24

* weighted average

Sensitivity of the defined benefit obligation:

2016		Impact on defined benefit obligation			
in CHF 1000.–	Change in assumption	Increase in assumption		Decrease in assumption	
Discount rate	0.50%	(10 841)	(6.0%)	12 267	6.8%
Salary growth rate	0.50%	990	0.5%	(990)	(0.5%)
Pension growth rate	0.25%	4 189	2.3%	(4 015)	(2.2%)
		Increase by 1 year in assumption		Decrease by 1 year in assumption	
Life expectancy		7 275	4.0%	(6 632)	(3.7%)%

Sensitivity of the defined benefit obligation:

2015		Impact on defined benefit obligation			
in CHF 1000.–	Change in assumption	Increase in assumption		Decrease in assumption	
Discount rate	0.50%	(9 510)	(5.4%)	11 443	6.5%
Salary growth rate	0.50%	1 057	0.6%	(1 022)	(0.6%)
Pension growth rate	0.25%	3 813	2.2%	(3 492)	(2.0%)
		Increase by 1 year in assumption		Decrease by 1 year in assumption	
Life expectancy		6 354	3.6%	(6 034)	(3.4%)

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognized within the balance sheet.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

Composition of plan assets:

Plan assets are comprised as follows:

in CHF 1000.–	2016	in %	2015	in %
Equity instruments	24 534	24.3	27 147	25.9
Bonds	56 446	56.0	58 547	55.7
Property	17 243	17.1	16 633	15.8
Cash and cash equivalents	1 599	1.6	2 726	2.6
Other	964	1.0	-	-
TOTAL	**100 786**	**100.0**	**105 053**	**100.0**

The assets of the Swiss pension funds which represent 87% (2015: 87%) of the Group's plan assets are comprised of:

- 23% (2015: 23%) Equity instruments with quoted prices in an active market (level 1 fair value classification).
- 56% (2015: 57%) Bonds with quoted prices in an active market (level 1 fair value classification).
- 20% (2015: 18%) Property with quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market data (level 2 fair value classification).
- 1% (2015: 3%) Cash and cash equivalents with quoted prices in an active market (level 1 fair value classification).

Through its defined benefit pension plans, the Group is exposed to a number of risks, the most significant of which are detailed below:

Asset volatility

The plan liabilities are calculated using a discount rate set with reference to corporate bond yields; if plan assets underperform this yield, this will create a deficit.

Changes in bond yields

A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plans' bond holdings.

Inflation risk

The majority of the plans' benefit obligations are linked to inflation, and higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect the plan against extreme inflation). The majority of the plan's assets are either unaffected by (fixed interest bonds) or loosely correlated with (equities) inflation, meaning that an increase in inflation will also increase the deficit.

Life expectancy

The majority of the plans' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plans' liabilities. In case of the funded plans, the group ensures that the investment positions are managed within an asset-liability matching (ALM) framework that has been developed to achieve long-term investments that are in line with the obligations under the pension schemes. Within this framework, the Group's ALM objective is to match assets to the pension obligations by investing in long-term fixed interest securities with maturities that match the benefit payments as they fall due and in the appropriate currency. The company actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the pension obligations. The Group has not changed the processes used to manage its risks from previous periods. The Group does not use derivatives to manage its pension scheme risk. Investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets. The largest proportion of assets is invested in bonds, although the Group also invests in property, equity, cash and alternative investments.

Expected contributions

Expected contributions to post-employment benefit plans for the year ending December 31, 2017 are TCHF 3 720.

Weighted average duration

The weighted average duration of the defined benefit obligations are:

Weighted average duration:

	Switzerland		Germany		Other*	
	2016	2015	2016	2015	2016	2015
in years	10	11	15	13	14	17

* weighted average

18. PROVISIONS

in CHF 1000.–	Rebate provisions	Litigation	Employee related	Other	Total
BALANCE AT DECEMBER 31, 2015*/ JANUARY 1, 2016	**930**	**7 373**	**7 530**	**3 285**	**19 118**
Additional provisions	-	-	2 904	2 460	5 364
Utilized	(12)	(1 440)	(279)	(690)	(2 421)
Unused amounts reversed/reclassifications	(925)	(300)	(6)	(283)	(1 514)
Foreign exchange differences	7	(79)	70	(1 282)	(1 284)
BALANCE AT DECEMBER 31, 2016	**-**	**5 554**	**10 219**	**3 490**	**19 263**

Analysis of total provisions					
Current provisions	-	385	-	3 045	**3 430**
Non-current provisions	-	5 169	10 219	445	**15 833**

* restated, refer to note 21

Litigation

The amounts represent a provision for certain legal claims brought against the Group.

Employee related

This position represents mainly a provision for jubilee, early retirement and indemnity payments and the long term incentive plan.

Rebate provisions

The amounts represented in 2015 a provision for uncertain customer incentives.

Other provisions

Other provisions are set up for obligations which do not fall into one of the before mentioned group of provisions including non income taxes (CHF 1.5 million; 2015: CHF 1.2 million) .

19. OTHER NON-CURRENT LIABILITIES

in CHF 1000.–	Note	2016	2015
Deferred government grant income		5 083	8 595
License liability	22	1 262	2 327
Withholding taxes		870	2 383
Other liabilities		627	722
TOTAL OTHER NON-CURRENT LIABILITIES		**7 842**	**14 027**

20. TRADE AND OTHER PAYABLES

in CHF 1000.–	Note	2016	2015*
Trade payables	22	121 777	109 650
Amounts due to related and associated companies	22, 23	-	9
Social security		4 647	4 308
Government grants		3 582	3 477
VAT and other taxes		6 120	6 817
Accrued expense	22	108 066	118 802
Other payables	22	5 476	8 593
Deferred consideration*	21	-	399
TOTAL TRADE AND OTHER PAYABLES		**249 668**	**252 055**

* restated, refer to note 21

Other payables consist primarily of obligations arising from customer credit balances.

21. BUSINESS COMBINATIONS, ACQUISITION OF NON-CONTROLLING INTERESTS AND DISPOSALS

Effective December 1, 2015, the Group acquired 50% plus one share in the share capital of the Brazilian jam manufacturer and distributor Kiviks Marknad Industrias Alimenticias S.A. and obtained control of the company. The products are sold under the brand name "Queensberry". The Group acquired Kiviks Marknad Industrias Alimenticias S.A. to establish a market presence in the South American continent. The Group has elected to measure the non-controlling interests in the acquiree at the proportionate share of its interest in the acquiree's identifiable net assets.

The Group incurred acquisition-related costs of CHF 0.6 million mainly on legal fees and due diligence costs. These costs have been included in 'administrative expense'.

The goodwill on the acquisition is attributable to the profitability of the acquired business and its leverage on the existing business. None of the goodwill recognized is expected to be deductible for income tax purposes.

The acquisition values of Kiviks Marknad Industrias Alimenticias S.A. which have been provisionally determined in 2015 have been finally assessed in 2016. The acquisition values are shown on the next page. The comparative amounts disclosed in these financial statements have been retrospectively adjusted.

in CHF 1000.–

	Fair value recognized on acquisition		
	2015 provisional as disclosed	change	final
Assets			
Property, plant and equipment	11 050	2 253	13 303
Intangible assets - brand & customer list	-	9 130	9 130
Inventories	2 255	-	2 255
Trade receivables, other current and non-current receivables	2 373	507	2 880
Cash and cash equivalents	520	-	520
	16 198	11 890	28 088
Liabilities			
Borrowings	(4 713)	-	(4 713)
Deferred tax liabilities	-	(3 870)	(3 870)
Provisions	-	(507)	(507)
Trade and other payables	(1 187)	-	(1 187)
	(5 900)	(4 377)	(10 277)
Total identifiable net assets at fair value	**10 298**	**7 513**	**17 811**
Non-controlling interest (50% of net assets)	(5 149)	(3 756)	(8 905)
Goodwill arising on acquisition	8 219	(3 358)	4 861
Purchase consideration transferred	**13 368**	**399**	**13 767**
	Cash flow on acquisition		
Net cash and cash equivalents acquired with the subsidiary	520	-	520
Cash paid	(13 368)	(399)	(13 767)
Net cash flow on acquisition	**(12 848)**	**(399)**	**(13 247)**
Revenues contributed to the Group in 2015 after acquisition	1 690		
Net income contributed to the Group in 2015 after acquisition	502		
Revenues, had the acquisition occurred on January 1, 2015	12 981		
Net income, had the acquisition occurred on January 1, 2015	2 171		

22. FINANCIAL INSTRUMENTS

Fair values

Set out below is a comparison by category of carrying amounts and fair values of all the Group's financial instruments that are carried in the financial statements:

in CHF 1000.–	Note	Carrying amount 2016	Carrying amount 2015	Fair value 2016	Fair value 2015
Financial assets - cash flow hedges					
Current					
Foreign exchange contracts in cash flow hedges		166	-	166	-
Financial assets at fair value through profit or loss – held for trading					
Current					
Foreign exchange contracts not designated as hedges		765	1 119	765	1 119
Loans and receivables					
Non-current					
Non-current receivables	10	180	174	**	**
Current					
Trade receivables	13	150 510	153 650	**	**
Loans to related parties	13	13 952	-	**	-
Cash and cash equivalents	14	99 039	163 711	**	**
Financial liabilities - cash flow hedges					
Current					
Foreign exchange contracts in cash flow hedges		492	-	492	-
Financial liabilities at fair value through profit or loss – held for trading					
Current					
Interest rate swap not deisgnated as hedge		-	6 501	-	6 501
Foreign exchange contracts not designated as hedges		6 214	1 626	6 214	1 626

in CHF 1000.–	Note	Carrying amount 2016	Carrying amount 2015	Fair value 2016	Fair value 2015
Other financial liabilities					
Non-current					
Borrowings	16	28 096	58 610	28 081	57 691
Debentures	16	264 626	129 522	264 370	129 848
Other liabilities	19	1 262	2 327	*	*
Current					
Trade and other payables	20	235 319	237 054	**	**
Borrowings	16	135 352	141 764	**	**

* The fair values approximate their fair values.
** The fair values are approximate to their carrying amounts largely due to the short-term maturities of these instruments.

Fair value

The fair value of derivatives has been calculated by discounting the expected future cash flows at prevailing interest rates. The fair value of financial assets has been calculated using market interest rates. The fair values of non-current borrowings is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

Cash Flow Hedge

The cash flow hedges of the expected future sales and purchases in 2017 were assessed to be highly effective and a net unrealised loss of TCHF 326, with a deferred tax asset of TCHF 79 relating to the hedging instruments, is included in OCI. (2015: none - no hedge accotuning was applied). The amounts retained in OCI at 31 December 2016 are expected to mature and affect the statement of profit or loss in 2017.

Interest-Rate Swap

The Group entered into a structured CHF Interest-Rate Swap linked to Deutsche Bank's Trends USD Index. Starting October 28, 2009 and ending at October 28, 2016 Hero received in the first two years 6.5% and pays 5.5% interest p.a. on the underlying amount of CHF 500 million. From the 3rd year until the end of the instrument Hero receives 6.5% interest and pays interest in the range of 0%–8% p.a. on the underlying amount of CHF 500 million depending on the performance of the underlying Deutsche Bank's Trends USD Index. This Interest-Rate Swap is fair valued every year using a Monte-Carlo-Simulation with the resulting profit or loss being recognized in the income statement. While applying this Monte-Carlo valuation technique the longest available historical data set of the underlying index has been used to determine parameters such as volatility and average performance of the index. The discount rate is based on a 7 year risk free interest rate. In 2016 a loss of CHF 1.7 million (2015: loss of CHF 1.9 million) has been recognized in the financial result.

in CHF 1000.–	
BALANCE AT JANUARY 1, 2016	**6 501**
Net cash outflow	(8 166)
Fair value loss expensed	1 665
BALANCE AT DECEMBER 31, 2016	**-**

Debentures

The Group issued CHF 135.0 million bonds on October 28, 2016. The bonds bear 1.00% interest p.a. The maturity date is October 28, 2026. The bonds are traded at the SIX Swiss Exchange. The bonds constitute direct, unconditional and unsubordinated obligations for Hero.

The Group issued CHF 130.0 million bonds on June 26, 2013. The bonds bear 1.25% interest p.a. The maturity date is June 26, 2020. The bonds are traded at the SIX Swiss Exchange. The bonds constitute direct, unconditional and unsubordinated obligations for Hero.

Forward foreign exchange contracts

The notional amounts of the outstanding foreign exchange contracts include commitments to sell for a notional amount of CHF 47.0 million (2015: CHF 37.4 million) and commitments to buy for a notional amount of CHF 432.3 million (2015: CHF 433.5 million).

in CHF 1000.–	2016	2015
Contracts with positive fair values		
Forward foreign exchange contracts	46 227	37 998
Contracts with negative fair values		
Forward foreign exchange contracts	(437 257)	(434 128)

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

During the reporting period ending December 31, 2016, there were no transfers between Level 1, Level 2 and Level 3 fair value measurements.

As at December 31, 2016, the Group held the following financial instruments measured at fair value:

Assets measured at fair value

at December 31, 2016

in CHF 1000.–	Level 1	Level 2	Level 3	Total
Forward foreign exchange contracts in cash flow hedges	–	166	–	166
Forward foreign exchange contracts not designated as hedges	–	765	–	765

at December 31, 2015

in CHF 1000.–	Level 1	Level 2	Level 3	Total
Forward foreign exchange contracts not designated as hedges	–	1 119	–	1 119

Liabilities measured at fair value

at December 31, 2016

in CHF 1000.–	Level 1	Level 2	Level 3	Total
Forward foreign exchange contracts in cash flow hedges	–	492	–	492
Forward foreign exchange contracts not designated as hedges	–	6 214	–	6 214

at December 31, 2015

in CHF 1000.–	Level 1	Level 2	Level 3	Total
Interest rate swap not designated as hedge	–	–	6 501	6 501
Forward foreign exchange contracts not designated as hedges	–	1 626	–	1 626

Liabilities for which are fair values disclosed

at December 31, 2016

in CHF 1000.–	Level 1	Level 2	Level 3	Total
Borrowings	–	28 096	–	28 096
Debentures	–	264 626	–	264 626

at December 31, 2015

in CHF 1000.–	Level 1	Level 2	Level 3	Total
Borrowings	–	58 610	–	58 610
Debentures	–	129 522	–	129 522

23. RELATED AND ASSOCIATED PARTY TRANSACTIONS

in CHF 1000.–	Note	2016	2015
Income / (expense)			
Interest income to AOH Nahrungsmittel Group		2	–
Interest expense to AOH Nahrungsmittel Group		(17)	(360)
Receivables			
Other short-term receivables from AHO Nahrungsmittel Group		5	
Short-term loans to AOH Nahrungsmittel Group	13	13 952	–
Payables and liabilities			
Other short-term liabilities to AOH Nahrungsmittel Group	20	–	9
Short-term loan liabilities to AOH Nahrungsmittel Group	16	–	9 738
Short-term loan liabilities to non-controlling interests shareholders	16	807	950
Long-term loan liabilities to non-controlling interests shareholders	16	–	475
Key management compensation			
Salaries and other short-term employee benefits		(5 775)	(5 464)
Post-employment benefits		(1 782)	(355)
Long term incentive plan expense		(709)	(767)
Long term incentive plan provision		5 882	3 906
Long term incentive plan loan receivable	10	1 366	862

Key Management Compensation

The amounts disclosed in the table are the amounts recognised as an expense during the reporting period related to key management personnel, which reflects the Executive Board.

Transactions with associated companies are conducted on commercial terms and conditions and at market prices. Transactions with associated companies include mainly financing activities.

24. CONTINGENT LIABILITIES

in CHF 1000.–	2016	2015
Contingent liabilities in favor of third parties	10 675	5 130

Contingent liabilities are composed primarily of a third-party guarantee granted in connection with the relocation of the Lenzburg site and various bank and custom guarantees. One element of the Lenzburg site guarantee is an amount of up to CHF 4.0 million, which would be payable in the event that contaminated material must be removed from the site. A bank guarantee of CHF 5.6 million is to secure a subsidiary's credit line.

25. COMMITMENTS

in CHF 1000.–	2016	2015
Commitments for the acquisition of tangible fixed assets	3 024	782
Commitments for raw materials	66 165	69 504
TOTAL CAPITAL COMMITMENTS	**69 189**	**70 286**

Commitments for operating lease are as follows:

in CHF 1000.–	2016	2015
Amount due within one year	5 237	8 355
Between one and five years	6 974	6 799
After five years	601	615
TOTAL OPERATING LEASE COMMITMENTS	**12 812**	**15 769**
TOTAL OPERATING LEASE EXPENSE RECOGNIZED IN THE INCOME STATEMENT	**(4 205)**	**(9 917)**

26. EVENTS AFTER THE BALANCE SHEET DATE

On March 15, 2017 the Board of Directors resolved to pay the annual coupon of 2.125% on the hybrid capital third parties of nominal CHF 200.0 million which is TCHF 4'250.

There have been no other significant events between December 31, 2016, and the date of authorization of the consolidated financial statements that would require any adjustment or disclosure.

27. PRINCIPAL GROUP COMPANIES

Country	Name of company	Location	Share capital in thousands local currency		Equity interest in %	Consolidation method *	Activity**
Brazil	Kiviks Marknad Industrias Alimenticias S.A.	Itatiba	BRL	32 000	50.0	F	P; S
China	Autumn Harvest Ltd.	Hong Kong	HKD	1	100.0	F	S
	Hero (Shanghai) Trading Co.Ltd.	Shanghai	CNY	1 254	100.0	F	S
Czech Republic	Hero Czech s.r.o.	Prague	CZK	200	100.0	F	S
Denmark	Semper Danmark ApS	Frederiksberg	DKK	50	100.0	F	S
Egypt	Hero Nutritional Food Industries SAE (Vitrac)	Cairo	EGP	93 288	100.0	F	P; S
	Hero Middle East and Africa Trading LLC	Cairo	EGP	50	100.0	F	S
Finland	Oy Semper Ab	Espoo	EUR	3	100.0	F	S
Germany ***	Hero GmbH & Co. KG	Bielefeld	EUR	237 414	100.0	F	S
	Schönauer IAV AG	Bad Schwartau	EUR	404	100.0	F	H
	Schwartauer Werke GmbH & Co. KGaA	Bad Schwartau	EUR	57 500	100.0	F	P; S; R
Italy	Hero Italia SpA	Verona	EUR	3'616	100.0	F	S
Netherlands	Hero Kindervoeding B.V.	Breda	EUR	18	100.0	F	S
	Hero Nederland B.V.	Breda	EUR	14 520	100.0	F	P; S
	Organix Nederland B.V.	Breda	EUR	18	100.0	F	S
	Koninklijke Maatschappij de Betuwe B.V.	Breda	EUR	1 010	100.0	F	H
Norway	Semper AS	Lysaker	NOK	933	100.0	F	S
Portugal	Hero Portugal Lda	Amadora	EUR	4 607	100.0	F	S
Russia	Hero Rus LLC	Moscow	RUB	10	100.0	F	S
Slovakia	Hero Slovakia s.r.o.	Nitra	EUR	7	100.0	F	S
Spain	Hero España SA	Alcantarilla	EUR	22 538	100.0	F	P; S; R
Sweden	Semper AB	Sundbyberg	SEK	45 000	100.0	F	P; S
Switzerland	Hero AG	Lenzburg	CHF	62 047	100.0	F	H; P; S
	Hero Beteiligungen AG	Lenzburg	CHF	30 433	100.0	F	H
Turkey	Hero Gida San.ve Tic. AS	Istanbul	TRY	63 632	100.0	F	P; S
United Kingdom	Hero UK Ltd.	Liverpool	GBP	–	100.0	F	S
	Organix Brands Ltd.	Bournemouth	GBP	47	100.0	F	S
United States of America	Beech-Nut Nutrition Corporation	Amsterdam, NY	USD	1	100.0	F	P; S
	Hero USA Inc.	Amsterdam, NY	USD	15 000	100.0	F	H
	Signature Brands LLC	Ocala	USD	–	100.0	F	P; S

* Consolidation: F = fully consolidated

** Activity: H = holding company and/or performs finance function; P = performs manufacturing and/or production activities; S = performs sales and/or marketing activities; R = performs research and development activities.

*** For the purpose of German commercial law, these consolidated Group financial statements release the companies from their obligation to publish their own financial statements in Germany, in accordance with Section 264 sub-section 3 of the German HGB (commercial code).

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Statutory auditor's report

with consolidated financial statements as of 31 December 2016 of

Hero AG, Lenzburg

To the General Meeting of
Hero AG, Lenzburg

Zurich, 15 March 2017

Statutory auditor's report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Hero AG and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2016 and the consolidated statement of comprehensive income, changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion the consolidated financial statements (pages 38 to 106) give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the consolidated financial statements.

Deferred tax balances and current income tax positions

Area of focus	Significant judgment is involved in determining deferred tax balances and current income tax positions. The assessment is complex, since the Company engages in many intercompany transactions and arrangements concerning multiple tax jurisdictions. The amounts involved are material. Due to the significance of the deferred tax balances and current income tax positions and the judgment involved in determining these, in particular as it relates to the United States, this matter was considered significant to our audit. Refer to notes 5 and 11 of the consolidated financial statements for the Company's disclosures on current and deferred taxes.
Our audit response	We assessed the Company's internal controls over its tax processes and key assumptions applied. We considered the Company's transfer pricing concept, changes thereto and the corresponding documentation. We assessed the Company's correspondence with tax authorities and inquired regarding ongoing tax audits and potential disputes. We considered developments in tax legislation and whether these were reflected in the Company's assumptions. We evaluated whether the key assumptions applied in the Company's assessment of recoverability of deferred tax assets is consistent with management's budgets and forecasts. We involved tax specialist to assist in examining the Company's tax methodologies and analyzing the underlying key assumptions.

Goodwill and indefinite-lived intangible assets

Area of focus	Goodwill and indefinite-lived intangible assets represent 35% of the Group's total assets and 79% of the Group's total shareholders' equity as at December 2016. As stated in the accounting principles included in the notes to the consolidated financial statements, the carrying value of goodwill and indefinite-lived intangible assets is tested annually for impairment. The Company performed its annual impairment test of goodwill and indefinite-lived intangible assets in the fourth quarter of 2016 and determined that there was no impairment. Key assumptions

concerning the impairment test are disclosed in the consolidated financial statements (refer to notes: 8. critical accounting estimates, assumptions and judgments). In determining the recoverable amount of cash-generating units, the Company must apply judgment in estimating – amongst other factors – future revenues and margins, long-term growth and discount rates. Due to the significance of the carrying values for goodwill and indefinite-lived intangible assets and the judgment involved in performing the impairment test, this matter was considered significant to our audit.

Our audit response

We assessed the Company's internal controls over its annual impairment test and key assumptions applied as well as the authorization of the impairment test by the Board of Directors. We evaluated management's interpretation of cash-generating units. We involved valuation specialists to assist in examining the Company's valuation model and analyzing the underlying key assumptions, including future revenues and margins, long-term growth and discount rates. We assessed the historical accuracy of the Company's estimates and considered its ability to produce accurate long-term forecasts. We evaluated the sensitivity in the valuation resulting from changes to the key assumptions applied and compared these assumptions to corroborating information, including industry reports and data from competitors.

Other information in the annual report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibility of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the

Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the website of EXPERTsuisse: http://www.expertsuisse.ch/en/audit-report-for-public-companies. This description forms part of our auditor's report.

Report on other legal and regulatory requirements
In accordance with article 728a para. 1 item 3 CO and the Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

Ernst & Young Ltd

André Schaub
Licensed audit expert
(Auditor in charge)

Philipp Baumann
Licensed audit expert

CONTINUED PROFITABLE GROWTH PATH

STATUTORY FINANCIAL STATEMENTS OF HERO AG, LENZBURG

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INCOME STATEMENT

for the year ended December 31
Hero AG, Lenzburg
in CHF 1000.–

	2016	2015
Net proceeds from sales of goods and services	178 240	187 825
Income from disposal of intangible assets	-	2 747
Dividend income	30 553	52 776
Cost of materials	(77 029)	(87 826)
Employee expenses	(38 346)	(34 032)
Other operational costs	(37 587)	(38 613)
Earnings before interest, taxes, depreciation and amortization (EBITDA)	**55 831**	**82 877**
Depreciation and valuation adjustments	(10 608)	(8 935)
Earnings before interest and taxes (EBIT)	**45 223**	**73 942**
Financial income	57 800	61 651
Financial costs	(58 448)	(77 176)
Operating result before taxes	**44 575**	**58 417**
Non-operational income	1 150	–
Extraordinary, non-recurring or prior period costs	-	(5 540)
Earnings before taxes	**45 725**	**52 877**
Direct taxes	(276)	(2 437)
ANNUAL PROFIT	**45 449**	**50 440**

BALANCE SHEET

as at December 31, before appropriation of profit
Hero AG, Lenzburg
in CHF 1000.–

Assets	Note	2016	2015
Cash and cash equivalents	1	27 737	76 996
Trade receivables	3	20 516	23 214
Other current receivables	3	179 477	128 383
Inventories	1	9 498	10 044
Current assets		**237 228**	**238 637**
Financial assets	3	347 010	512 149
Investments	2	422 410	445 776
Tangible fixed assets	1	36 610	38 064
Intangible assets		54 324	60 933
Non-current assets		**860 354**	**1 056 922**
TOTAL ASSETS		**1 097 582**	**1 295 559**

Liabilities	Note	2016	2015
Trade payables	3	12 261	13 867
Current interest-bearing liabilities	3	233 159	420 543
Other current liabilities	3	10 615	6 386
Deferred income and accrued expenses	1	20 461	27 418
Current provisions	1	7 095	10 245
Current liabilities		**283 591**	**478 459**
Non-current interest-bearing liabilities	1, 3	489 626	525 397
Non-current provisions	1	7 868	8 310
Non-current liabilities		**497 494**	**533 707**
TOTAL LIABILITIES		**781 085**	**1 012 166**
Share capital		62 047	61 872
Capital contribution reserve		62 993	61 192
Legal reserve		25 758	25 758
Profit carry forward		120 250	84 131
Net income for the year		45 449	50 440
Voluntary retained earnings		165 699	134 571
TOTAL EQUITY		**316 497**	**283 393**
TOTAL LIABILITIES		**1 097 582**	**1 295 559**

NOTES TO THE STATUTORY FINANCIAL STATEMENTS

Accounting principles

General

These financial statements have been prepared in accordance with the provisions on commercial accounting laid down in articles 957 – 963b Swiss Code of Obligations (CO) (effective January 1, 2013).

Where not prescribed by law, the significant accounting and valuation principles applied are described below.

Bad debt reserve

Bad debt allowances are based on internal guidelines that require individual value adjustments to be undertaken. Taking account of their age structure and based on historical experience, certain residual balances are subject to additional allowances of a suitable percentage.

Inventory

Inventories are recorded at the lower of acquisition or production cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less estimated cost of completion and the necessary cost to make the sale. Production costs include direct and indirect material and production costs. Inventory is valued using the weighted average method. A valuation allowance is recognized for any damaged or slow-moving goods.

Tangible fixed assets

Tangible fixed assets are depreciated on a straight line method over the course of the useful economic life of the asset. Land is not depreciated. The general useful economic lives for various asset categories can be summarized as follows:

• Land	indefinite
• Buildings	20 to 50 years
• Fixture and fittings	10 to 15 years
• Plant and machinery	3 to 10 years
• Motor vehicles	4 to 10 years
• Furniture	5 to 10 years
• IT hardware	3 to 5 years

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Intangible assets

Software:

Software is amortized on a reducing-balance method over the course of the useful economic life of the asset.

Brands:

Brands and other intangible assets with a definite useful life are carried at historical cost less accumulated amortization. Amortization is calculated using the following method to allocate the costs over their estimated useful lives:

• Brands	up to 25 years straight-line method
• Software	1 to 5 years reducing-balance method
• Other intangible assets	5 to 25 years straight-line method

Investments

The carrying value of investments comprises costs less accumulated write-downs and are tested annually for impairment.

Long term incentive plan

Effective January 1, 2014, the Group issued a long term incentive plan for the executive board members. There is a two years waiting period for newly appointed executive board members before they may participate in the plan. Under the plan, the participants may be offered the opportunity to invest up to 50% of their bonus payment in shares. After a restriction period of three years, participants may sell the shares back to Hero AG at a price based on a formula defined in the plan. In conjunction with the plan, participants may be granted loans to fund the share issue. As the shares are restricted, it will ultimately revert to the company and the share price does not reflect the fair value of the Hero AG shares, the Group has accounted for.

The shares which allow the executive board members to participate in the plan are revalued yearly by using a predefined enterprise valuation model.

Non-current interest-bearing liabilities

Interest-bearing liabilities are recognized in the balance sheet at nominal value. Discounts and issue costs for bonds are recognized as prepaid expenses and amortized on a straight-line basis over the bond's maturity period. Premiums are recognized as accrued expenses and amortized on a straight-line basis over the loan's maturity period.

1. INFORMATION, CLASSIFICATIONS AND EXPLANATIONS TO POSITIONS IN THE BALANCE SHEET

Cash and cash equivalents	2016	2015
Bank & cash	27 737	76 996
	27 737	76 996

Inventories		
Packaging material	997	1 244
Raw material	942	900
Finished goods	7 559	7 900
	9 498	10 044

Tangible fixed assets		
Land	4 749	4 749
Buildings	22 748	23 426
Plant and machinery	8 943	9 604
Other equipment and vehicles	170	285
	36 610	38 064

Deferred income and accrued expenses		
Interest	1 369	4 691
Promotions	107	244
Goods received no invoice received	1 114	1 019
Advertising	362	515
Personnel	6 784	6 673
Service	1 802	2 086
Others	8 923	12 190
	20 461	27 418

Current provisions	2016	2015
Non income tax	675	675
Litigation	156	456
Interest	-	8 015
Others	6 264	1 099
	7 095	10 245
Non-current interest-bearing liabilities		
Bank	25 000	54 804
Perpetual and subordinated bond	200 000	341 000
Straight bond	264 626	129 522
Others	-	71
	489 626	525 397
Non-current provisions		
Litigation	5 150	6 300
Others	2 718	2 010
	7 868	8 310

2. INVESTMENTS

Company	Domicile	Ownership*	2016 Share capital in %	2016 Share of vote in %	2015 Share capital in %	2015 Share of vote in %
Autumn Harvest Ltd.	Hong Kong, China	I	100.0	100.0	100.0	100.0
Beech-Nut Nutrition Corporation	Amsterdam (NY), USA	I	100.0	100.0	100.0	100.0
Hero (Shanghai) Trading Co. Ltd.	Shanghai, China	D	100.0	100.0	100.0	100.0
Hero Beteiligungen AG	Lenzburg, Switzerland	D	100.0	100.0	100.0	100.0
Hero Czech s.r.o.	Prague, Czech Republic	I	100.0	100.0	100.0	100.0
Hero Espagna SA	Alcantarilla, Spain	I	100.0	100.0	100.0	100.0
Hero Foods Canada INC	Etobicoke, Canada	D	100.0	100.0	100.0	100.0
Hero Gida San.ve Tic.AS	Istanbul, Turkey	I	100.0	100.0	100.0	100.0
Hero GmbH & Co KG	Bielefeld, Germany	D	100.0	100.0	100.0	100.0
Hero of America Inc.	Amsterdam (NY), USA	I	100.0	100.0	-	-
Hero USA Inc.	Amsterdam (NY), USA	I	100.0	100.0	100.0	100.0
Hero Italia SpA	Verona, Italy	I	100.0	100.0	100.0	100.0
Hero Kindervoeding B.V.	Breda, Netherlands	I	100.0	100.0	100.0	100.0
Hero Middle East and Africa Trading LLC	Cairo, Egypt	I	100.0	100.0	100.0	100.0
Hero Nederland B.V.	Breda, Netherlands	I	100.0	100.0	100.0	100.0
Hero Nutritional Food Industries SAE	Cairo, Egypt	I	100.0	100.0	100.0	100.0
Hero Portugal Lda	Amadora, Portugal	I	100.0	100.0	100.0	100.0
Hero Rus LLC	Moscow, Russia	D	100.0	100.0	100.0	100.0
Hero Slovakia s.r.o.	Nitra, Slovakia	I	100.0	100.0	100.0	100.0
Hero UA LLC	Kiev, Ukraine	D	-	-	100.0	100.0
Hero UK Ltd.	Liverpool, United Kingdom	I	100.0	100.0	100.0	100.0
Hero Verwaltungs GmbH	Bielefeld, Germany	D	100.0	100.0	100.0	100.0
Kiviks Marknad Industrias Alimenticias S.A.	Itatiba, Brazil	D	50.0	50.0	50.0	50.0
Koninklijke Maatschappij de Betuwe B.V.	Breda, Netherlands	I	100.0	100.0	100.0	100.0
Organix Brands Ltd.	Bournemouth, United Kingdom	I	100.0	100.0	100.0	100.0
Organix Nederland B.V.	Breda, Netherlands	I	100.0	100.0	100.0	100.0
Oy Semper Ab	Espoo, Finland	I	100.0	100.0	100.0	100.0
Schönauer IAV AG	Bad Schwartau, Germany	I	100.0	100.0	100.0	100.0
Schwartauer Werke GmbH & Co. KGaA	Bad Schwartau, Germany	I	100.0	100.0	100.0	100.0
Semper AB	Sundbyberg, Sweden	I	100.0	100.0	100.0	100.0
Semper AS	Lysaker, Norway	I	100.0	100.0	100.0	100.0
Semper Denmark Aps	Kopenhagen, Denmark	I	100.0	100.0	100.0	100.0
Semper HoldCo AB	Sundbyberg, Sweden	I	-	-	100.0	100.0
Signature Brands LLC	Ocala, USA	I	100.0	100.0	100.0	100.0
Sluicing AG	Lenzburg, Switzerland	D	100.0	100.0	100.0	100.0

* Ownership: D = Hero AG owns this investment directly; I = The investment is indirectly held via a subsidiary in the direct ownership of Hero AG.

3. RECEIVABLES FROM AND PAYABLES TO RELATED PARTIES

Trade receivables	2016	2015
Group companies	8 175	10 120
Third	12 341	13 094
	20 516	23 214
Other current receivables		
Group companies	168 513	120 492
Third	10 964	7 891
	179 477	128 383
Financial Assets		
Participants and management bodies	1 366	862
Group companies - loans	345 644	511 287
	347 010	512 149
Trade payables		
Group companies	2 901	3 284
Third	9 360	10 583
	12 261	13 867
Current interest-bearing liabilities		
Group companies	101 500	309 450
Third	131 659	111 093
	233 159	420 543
Other current liabilities		
Group companies	6 292	3 290
Third	4 323	3 096
	10 615	6 386
Non-current interest-bearing liabilities		
Third	489 626	525 397
	489 626	525 397

4. EXCESS RESERVES

	2016	2015
Release of excess reserves (build up [+] / release [–])	(294)	436

5. PARTICIPATION RIGHTS AND OPTIONS IN THE OWNERSHIP OF MANAGEMENT BODIES AND EMPLOYEES

	2016 number	2016 Total value in TCHF	2015 number	2015 Total value in TCHF
Participation rights in the ownership of				
Management bodies	53 094	3 524	35 575	2 257
Option rights in the ownership of*				
Management bodies	8 301	700	22 832	1 498

* Provisionally determined

6. OTHER INFORMATION

	2016	2015
Lease obligations not recorded in the balance sheet	440	193
Guarantees in the name of Hero AG in the favour of third parties	5 598	–
Contingent liabilities	4 300	4 300

7. NUMBER OF EMPLOYEES

	2016	2015
The average number of full time employees was	between 50 to 249	between 50 to 249

8. EXCEPTIONAL, NON-RECURRING INCOME STATEMENT ITEMS OR ITEMS RELATING TO OTHER PERIODS

In 2015 Hero AG has repurchased obsolete stock from a distribution partner in the amount of TCHF 5'540.

9. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

There have been no significant events between December 31, 2016, and the date of authorization of the financial statements that would require any adjustment or disclosure.

10. BONDS

Type of bond	Subordinated bond
Nominal value issued	CHF 200 million
Valor number	34172587/ISIN CH0341725874
Interest rate	2.125%
Maturity period	No fixed maturity
Maturity date	No fixed maturity
Type of bond	Senior bond
Nominal value	CHF 130 million
Valor number	21488315/ISIN CH0214883156
Interest rate	1.25%
Maturity period	June 26, 2013 to June 26, 2020
Maturity date	June 26, 2020
Type of bond	Senior bond
Type of bond	CHF 135 million
Valor number	34172588/ISIN CH0341725882
Interest rate	1.00%
Maturity period	October 28, 2016 to October 28, 2026
Maturity date	October 28, 2026

PROPOSAL OF THE BOARD ON THE APPROPRIATION OF RETAINED EARNINGS

in CHF 1000.–	2016	2015
Profit of the year	45 449	50 440
Amount carried forward from last year	120 959	83 422
Reclassification into/from capital contribution reserve	(709)	709
AVAILABLE FOR DISTRIBUTION	**165 699**	**134 571**
Total dividend payment 2016: CHF 5.75 on 6’204’694 registered shares of CHF 10.– par value	(35 677)	(13 612)
BALANCE CARRIED FORWARD	**130 022**	**120 959**

In the name of the Board of Directors:

Dr. Hasso Kaempfe

Chairman Board of Directors

Building a better working world

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Report of the statutory auditor

with financial statements as of 31 December 2016 of

Hero AG, Lenzburg

To the General Meeting of
Hero AG, Lenzburg

Zurich, 15 March 2017

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the financial statements of Hero AG, which comprise the income statement, balance sheet, and notes (pages 114 to 123), for the year ended 31 December 2016.

Board of Directors' responsibility
The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Building a better working world

Opinion

In our opinion, the financial statements for the year ended 31 December 2016 comply with Swiss law and the company's articles of incorporation.

Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the financial statements.

Investments and related income statement accounts

Area of Focus	Primary functions of the Company include holding investments in its subsidiaries as well as financing and monitoring the group's activities. For statutory purposes, the Company is required to assess the valuation of its investments and determine potential impairments on an individual basis (refer to notes – accounting principles). Furthermore, the Company is required to evaluate the recoverability of its loans to subsidiaries. We consider investments and loans to subsidiaries significant to our audit as the amounts concerned are material and the assessments involve judgment in estimating – amongst other factors – future revenues and margins, long-term growth and discount rates.
Our audit response	We examined the Company's valuation model and analyzed the underlying key assumptions, including future revenues and margins, long-term growth and discount rates. We assessed the historical accuracy of the Company's estimates and considered its ability to produce accurate long-term forecasts. We evaluated the sensitivity in the valuation resulting from changes to the key assumptions applied and compared these assumptions to corroborating information, including expected inflation rats and market growth.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a para. 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

Ernst & Young Ltd

André Schaub	Philipp Baumann
Licensed audit expert	Licensed audit expert
(Auditor in charge)	


Delight consumers
by conserving
the goodness of nature

Hero

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